

**THE URBAN INSTITUTE
CLOSE OUT REPORT**

**HUNGARY PROGRAM IN
THE LOCAL
GOVERNMENT AND
HOUSING SECTORS:**

**ACTIVITIES, IMPACT,
AND
LESSONS LEARNED**

Prepared for



East European Regional Housing Sector Assistance Project
Project 180-0034
U.S. Agency for International Development, ENI/DG/LGUD
Contract No. EPE-C-00-95-001100-00, RFS No. 570

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August 1999
UI Project 06610-570

TABLE OF CONTENTS

INTRODUCTION	1
IMPLEMENTING THE STRATEGIC FRAMEWORK	3
Strengthening Small and Medium Enterprises in the Real Estate Industry	3
Indicators	4
DISCUSSION OF PROJECTS	6
Revision of Condominium Law.....	6
Condominium Renovation Program	9
Strengthening Real Estate Development: Training for Developers and Lenders	22
Fostering Development of the Private Rental Market.....	26
INCREASING LOCAL GOVERNMENT CAPACITY	27
Indicators	28
DISCUSSION OF PROJECTS	30
Building Local Government Finance Capacity	30
Introducing a Value-Based Residential Property Tax.....	31
Performance Measurement	34
Development of a Model Contract.....	38
Project-Wide Measures for Institutionalization and After-Program Impact	41
Reforming the Municipal Budget Process	44
Association of Municipal Finance Officers	57
The Advocate Project.....	59
New Partnership of Local Government Associations	63
Solid Waste Management Project, Hajdu-Bihar County.....	66
BUILDING A MORE COMPETITIVE AND MARKET RESPONSIVE	
HOUSING FINANCE SECTOR	72
DISCUSSION OF PROJECTS	74
Review of Loan Recovery Regulations and Practices.....	75
Technical Assistance to Savings Cooperatives.....	79
Technical Assistance to the Hungarian Government on Housing Subsidy Policy	82
Policy and Legal Support	84
National Housing Finance Conference and Lender Workshops	86
LESSONS LEARNED PROGRAM-WIDE.....	88
Structural and Timing Concerns.....	88
Development of Local Capacity	90
Partners and People	92
A Multilateral Approach.....	93
Shadows of the Past.....	95
Working with Policy Makers	96
Better Training	97

ANNEXES

THE URBAN INSTITUTE CLOSE OUT REPORT HUNGARY PROGRAM IN THE LOCAL GOVERNMENT AND HOUSING SECTORS: ACTIVITIES, IMPACT, AND LESSONS LEARNED

INTRODUCTION

The Urban Institute's (UI's) work in Hungary since 1990 has played an important part in the transition to a stronger autonomous local government sector and a more efficient market-responsive housing sector. This report covers the work carried out since 1996 under the East European Regional Housing Sector Assistance Project.¹ (Annex 1 lists the projects undertaken by UI from 1990 to 1996 under the previous contract).

The work was directed at carrying out the United States Agency for International Development's (USAID's) mission of assisting Hungary in its national transformation to a democratic society with a market oriented and private sector led economy. In particular, efforts focused on assisting Hungary's ability to carry out the last stage of full democratic and economic transition by bringing both the responsibilities and benefits of the country's transformation to a level closer to the average Hungarian family and community.

UI's work under the contract was directed at contributing to three USAID Strategic Objectives (SO):

- SO 1.3—Improved performance of private small and medium enterprises
- SO 2.1—Better informed citizens increasing their participation in decision-making at the local level
- SO 1.4—A more competitive and market-responsive private financial sector

Small and Medium Enterprises

In brief, UI's work in the small and medium enterprises (SME) sector focused on strengthening a number of players in the real estate industry, including real estate developers, renovators and private property managers, as well as condominium owners, and their potential clients. It worked to improve access to commercial banking services and the availability of financing, and to put in place systems and practices to increase skills and resolve information gaps. In addition, it facilitated an improved regulatory environment by assisting the Ministry of Justice with drafting a new law governing the management of condominiums. Further, UI supported development of an association of private property managers both in order to create a forum for exchange of information and experience, and to provide a voice in governmental decision making. Projects undertaken included:

- Revision of Condominium Law
- Condominium Association Training Course

¹ Contributors to this report included Sharon Cooley, Douglas Diamond, Sándor Erdősi, Éva Gerőhazi, Wendy Graham, Carol Rabenhorst, and Andrea Tönkö.

- Condominium Renovation Program
- Strengthening Property Managers
- Housing Development Training Program
- Fostering Development of the Private Rental Market

Local Governance

UI's efforts in the local government arena were directed at increasing the transparency of information and enhancing general governmental management capacity by providing training to municipalities in modernizing their budgetary processes in conjunction with that effort, it fostered an association of municipal finance officers. It also worked to improve municipal financial management capacity, specifically in the areas of improving local tax policy, implementing performance measurement systems, and designing better service delivery contracts. UI also carried out a project, "the Advocate", that worked with all the USAID implementing partners under the local governance Strategic Objective to improve for a wider audience and disseminate products such as handbooks and videotapes. Further, UI worked in the inter-local cooperation area by facilitating the establishment of a new Partnership of Local Government Associations, and assisting an inter-local association in its efforts to establish a solid waste site. Projects in this sector were as follows:

- Building Local Government Finance Capacity
- Reforming the Municipal Budget Process
- Association of Municipal Finance Officers
- The Advocate Project
- New Partnership of Local Government Associations
- Solid Waste Management Project, Hajdu-Bihar County

Financial Sector

UI worked to improve the private financial sector by increasing competition among banks, making available a special mortgage instrument designed for Hungarian conditions, and assisting with legislative and policy reform efforts. This work also had an impact on efforts under Strategic Objective—Increased Soundness of Fiscal Policies and Fiscal Management—by working to reduce the burden of housing subsidies on the government budget. The projects were:

- Review of Foreclosure Regulation and Practice
- Technical Assistance to Savings Cooperatives
- Technical Assistance to the Hungarian Government on Housing Subsidy Policy
- Policy and Legal Support
- National Housing Finance Conference and Lender Workshops



This report is structured to consider work done to bring to fruition each of the Strategic Objectives in turn, including a more detailed analysis of how the work fulfilled the goals of the strategic framework. Next is a discussion of achievements under the indicators selected to show progress towards the objective? A description of each of the projects undertaken, with an evaluation of its impacts and lessons learned, follows, along with notes about special measures for institutionalization. After these discussions, the general lessons learned are summed up. Annex 1 lists all projects undertaken under previous USAID contracts. Annex 2 lists major reports prepared as part of each project.

IMPLEMENTING THE STRATEGIC FRAMEWORK

The following discusses in detail the projects UI carried out to implement the goals of the strategic framework. Beginning with a description of work undertaken to strengthen small and medium enterprises (SME) in the real estate industry, followed by a discussion of efforts to build local government capacity, and concluding with an analysis of projects directed at the housing finance sector.

Strengthening Small and Medium Enterprises in the Real Estate Industry

SME have been particularly disadvantaged in Hungary, with private enterprise often banned under the previous regime, and in many industries now facing sharp competition from large, monopolistic formerly state-owned enterprises. Yet they play an important role as an engine of growth in an economy in transition. In order to support the SME, UI provided technical assistance to the housing sector, as a microcosm of Hungarian SME in general. Small firms in this sector were selected as a focus of assistance for several reasons. By selecting just one sector, the interconnection of the various related industries—property management, construction, and renovation, for example—endows assistance efforts with a powerful multiplier effect. With large untapped potential markets—new condominiums needing renovation and largely self-help housing construction—, a relatively high technical skill level, and demonstrated high responsiveness to change, the SME in the housing sector have an excellent chance for success. Finally, representing up to 30 percent of the Hungarian economy, the housing industry can have tremendous impact on the SME and the economy as a whole.

Constraints plague small enterprises in Hungary, including difficult access to credit, an imperfect legal and regulatory framework, and a paucity of the skills necessary to survive in a competitive marketplace. Small businesses in the housing sector face the same constraints. UI addressed these issues in several ways.

While most small enterprises in the housing sector can start operation with a relatively modest capital outlay, two activities require considerable capital: housing construction and housing rehabilitation. UI worked from the side of both borrowers and lenders to make credit more easily accessible for small firms. Bringing bankers and

developers together in a series of training sessions, UI helped change the way banks view giving loans to developers. Funding is also necessary before the SME can assist condominiums with much needed renovations, so UI also worked with municipalities, banks and owners to increase the availability of financial resources.

Professional associations can play an important role in helping firms improve their regulatory environment. Unfortunately, where associations exist at present in Hungary, they are often new, inexperienced, and under-funded. In addition, they are likely to represent members of the industry that are older, larger, and better established (and often that were previously state-owned) as opposed to smaller private firms. UI fostered the development of an association of private property managers to help provide managers with a voice in decision making, as well as a forum in which managers could exchange ideas and strengthen their skills. UI also helped improve the regulatory climate by working with the Ministry of Justice to improve the law governing the operations of condominiums.

New small private firms everywhere in the world typically lack business skills. In Hungary during the transition this situation is exacerbated by the lack of historical examples of other successful small businesses and a paucity of resources for obtaining those skills. While the small firms are often more efficient than larger ones, they are new at running a business, analyzing the market, undertaking cost benefit analyses, and many other important skills. UI worked to meet the training needs of developer firms, so it could provide them with the skills that will enable them to succeed in a competitive, demanding, and quickly changing market. It also fostered an association of private property managers, which offers training in a variety of vital business skills to its membership.

Moreover, after the rapid privatization of the transition, new condominium owners, who have inherited units that are often in serious disrepair, are inexperienced and have little trust in professional property managers. These condominiums, some 650,000 strong in Hungary, represent a large potential market for property managers and renovation and construction companies. UI provided training and information for new condominium owners to enable them to employ the professional services they need in order to improve and manage their property more effectively. It also worked with condominiums, lenders, and the national government to improve condominiums' access to credit to undertake much needed renovation and to improve the law governing the operation of condominiums.

Indicators

The following Indicators were adopted as success indicators for the overall SME program. As shown below, the environment for Hungarian real estate SME substantially improved. Despite this, some goals were not fully met. The expected institutional



changes are now in place; the new condominium law was passed in 1997, and the private property manager association has been established.

Further, the number of private property managers has doubled, far exceeding the target, and the increase in the number of units built by private developers did achieve the targeted number—although the availability of finance to the sector remains somewhat limited. It should be noted that although official statistics show private developers built 11 percent of units in 1998, that figure includes only the units that are sold completed. As substantial portions of new houses are sold unfinished, it is estimated that the true figure is possibly as high as 15 percent. Moreover, the 31 percent increase in number of units completed by private developers in 1997 over 1996 seems to indicate a strong positive trend.

More banks have begun providing loans, both for condominium renovation and for construction finance. Total lending for condominium renovation, however, has decreased since 1997, both in terms of number of loans and total amount borrowed. Some of the decrease is probably due to the advent of the contract savings system; as people (and condominiums) signed up for accounts and began planning to get access to inexpensive loans in four years, their interest in other renovation loans at present dropped. Another reason for the drop is the increase in municipal programs (especially in Budapest) which make available both grants and favorable loans. It is important to note that while the *number of loans* for the first half of 1999 was slightly less than for 1998, the *total amount borrowed* increased by about 35 percent between 1998 and 1999. A difference that may be attributable to the increasing use of joint loans: while fewer loans are made, the amounts borrowed and the number of condominiums borrowing are increasing.

One new bank began offering construction loans. In addition, the banks that do offer construction finance at present have substantially changed their approach in the last two years. Moving from policies of lending primarily to a few corporate clients to developing regular construction lending policies including the beginnings of project finance, and the joint financing of developers and home buyers.

Indicator	Target	Achievement
Better legislation passed	Revised condominium law approved in 1997	Law passed as contemplated (see discussion below)
Number of loans for renovation	Number of renovation loans made to condominium increases by 40 percent by 1999 over 1997	The number of renovation loans decreased by 15 percent in 1999 over 1997
Number of banks issuing renovation loans	At least one new bank issues renovation loans	As of 1999, 2 additional banks have entered the field, with at least 2 more expected soon

Indicator	Target	Achievement
Number of private property managers employed by condominiums	Number of private property managers employed by condominium increases by 10 percent by 1999	Number increases by estimated 101 percent by 1998 over 1996
Number of banks that offer construction finance	At least one bank other than the Országos Takarékpénztár És Kereskedelmi Bank (National Savings Bank) (OTP) offers construction finance by 1999	One new bank entered field
Percent of units built by private developers	Percent of units built by private developers increased to 10 percent by 1998	Percent of units built by private developers was 11 percent in 1998
Self-financing association serving private property managers	Viable association in operation by 1999	Association organized in 1997, self-sustaining in 1999 (see discussion below)

DISCUSSION OF PROJECTS

Revision of Condominium Law

Strategic Framework

This project covered the revision of the Hungarian condominium law, in an effort to create a strong legal framework to enable condominiums to function effectively and thus engage the services of small and medium enterprises. The work contributed to Hungary/USAID's Strategic Objective 1.3: *improved performance of private small and medium enterprises*.

Implementation

Beginning in late 1996, UI provided assistance to the Ministry of Justice with revision of the Hungarian condominium law. Advisors examined the existing regulation of condominiums in Western Europe and the United States, and made recommendations for changing the current Hungarian law. The recommendations focused on clarifying the legal status of the owners' associations, improving an association's ability to make decisions about major repairs and renovation projects, and facilitating an association's ability to borrow from a bank for such purposes. USAID also organized a series of colloquia for interest groups to discuss the proposed legislation with the Ministry. Janos Pesta of the Ministry of Justice visited the United States (US) in May 1997 to learn about how these and other issues are handled under US condominium law.

The new condominium law was passed in January 1998, containing substantial improvements that will greatly facilitate the daily operation and management of condominiums and the ability to undertake and finance much-needed condominium renovation. The owners' association is given explicit authority to undertake major repairs



or renovation of the commonly owned property upon approval by a simple majority of these owners. This should resolve long-standing uncertainty about what approval is needed. The old law did not specifically define the scope of renovation projects that could be undertaken with less than unanimous consent; consequently, many people believed 100 percent approval was needed for any renovation.

With two-thirds approval, the association may sell a portion of the commonly owned property that can be made into a separate unit, as long as the foundation deed (the document establishing the condominium) so provides. With majority approval, an owner can petition the court to eliminate joint ownership over a portion of the common property and use it either to create an independent unit or extend individually owned property. The scope of the foundation deed has been changed to encompass only the most fundamental principles of governance; the day-to-day operations of the condominium are to be carried out under rules and procedures established in bylaws, which can adopt and amended with two-thirds approval.

Although not a full legal entity, the owners' association has been given new powers to enter into contracts and for most purposes to act with legal authority on behalf of the individual owners. The association may file a lien on the property of an owner who is more than 6 months delinquent in payment of condominium fees. Procedures are included in the law for the first time for construction and foundation of new condominium development, and for development of a condominium on leased land.

Condominium owner training materials developed under UI's previous contract have been revised and updated to reflect the new law.² These training materials focus on the rights and obligations of condominium ownership and common organizational and operational issues. One training module focuses on management issues such as legal, financial, organizational and maintenance problems. The other training module addresses rehabilitation issues. The training course continues to be offered in Budapest and other cities on a self-financing basis.

Impacts

Changes recommended were adopted in the new law, greatly improving the ability of condominiums to operate efficiently, and to borrow for needed renovation projects.

Ministry of Justice staff who was involved in USAID efforts learned a tremendous amount about international practice and legislation regarding condominiums.

² The Urban Institute and the Cooperative Housing Foundation with Hungarian advisors created the program. In addition to pilot training sessions held in various municipalities, the courses have been given continuously in Budapest's 12th district since 1996. Through the continuing marketing efforts of Metropolitan Research Institute, a number of other Budapest districts have expressed interest in presenting the seminars; among other venues, the three cities participating in the condominium renovation project described below hosted sessions in late 1997.

Lessons Learned

Early in the housing privatization program, it was believed that Hungary was fortunate because it had a long history of private condominiums; the previous law was passed in 1977 and was a successor to earlier laws. However, familiarity with condominium housing problems in Hungary and the need for new legislation was established through substantial programs of technical assistance for housing privatization and establishment and operation of condominiums. It became clear that the old law was suitable for small, private condominiums established by more affluent owners, but would not be appropriate for operating condominium owners' associations in privatized buildings.

To effect legislative changes, it was necessary for USAID contractors to establish credibility among important relevant parties by demonstrating knowledge of how condominiums operate in other countries and what changes were needed to help condominiums in privatized buildings succeed in Hungary. To change existing housing laws or prepare new ones, it is necessary to establish strong contacts with persons with authority to affect housing policy, especially in the Ministries of Finance and the Interior, and to prepare new housing legislation, in the Ministry of Justice.

It is necessary to develop popular support for change in legislation. For this law, this was done through the long-term technical assistance programs for establishment and renovation of condominiums, described above, and by explaining the contents of the new draft Condominium Law at a conference held to discuss its provisions, how they would work in practice, and why they are important.

It is necessary to make sure persons who are affected by the new law are aware of and understand its contents. Through contacts with owners' associations (through the condominium training program and the condominium renovation project), it was clear that many people, including persons working in the sector such as property managers and bankers interested in condominium lending, continued to be confused about the new law and how it would be implemented. Publications prepared for mass distribution under the renovation project covered the salient features of the new law, and the training materials and curriculum were modified to reflect those changes.

Measures for Sustainability and After-Program Impact

The improved condominium law will continue to facilitate operation of condominiums in the future. Moreover, personnel at the Ministry of Justice have received a solid grounding in general issues relating to condominiums and so will make better decisions in the future.

The condominium training effort will continue, spreading information about the new legislation and how it improves operating conditions for condominiums. In addition, the



new property management association, TIVOSZ (discussed below) will help condominium owners implement their new rights under the legislation.

Condominium Renovation Program

Strategic Framework

This project undertook the selection, design, and implementation of rehabilitation and major repair projects in the existing multifamily housing stock of Hungary through work with individual condominiums, lenders, local governments, and property managers. In order to promote the activation of the significant new market among condominiums for private sector services in property management, project design, and construction of rehabilitation and major repair projects. The work contributed to Hungary/USAID's Strategic Objective 1.3: *improved performance of private small and medium enterprises*.

Implementation

For this project, the team selected and initiated implementation of financially and technically feasible projects to improve common areas in privatized apartment buildings in three cities in Hungary. Participants in the projects were local governments, construction contractors, property managers, lenders, and condominium owners' associations.

A team of Hungarian and US experts conducted interviews in three municipalities that were selected for participation in the project—the Cities of Székesfehérvár and Miskolc, and District III of the City of Budapest. Through discussions with local city management officials, property managers, lenders, officials from local government social departments, local housing committees, and representatives of national ministries, the team found widespread recognition of the need to support and facilitate condominium renovation.

Technical assistance to participating owners' associations was an important focus of the Project. The condominium training course described above, offered to representatives of all buildings in the three selected locations, was only the first step in a project-long program of assistance designed to increase the ability of condominiums to overcome impediments to rehabilitation. Other areas of technical assistance included:

- Legal issues: dispute resolution, preparation and enforcement of contracts and other documentation, interpretation of new Condominium Law with regard to renovation.
- Organizational issues: consensus-building, owner decision-making.

- Financial issues: condominium fee allocation, collection, record keeping, and enforcement.
- Technical issues: determination of current building condition, prioritizing repairs, preparation of project plans and specifications.
- Loan application and management of payments, if applicable.
- Capital planning: project selection, planning for future work.
- Project management, relations with property manager and contractors.

Participating cities were important partners involved in all aspects of the project, including:

- Selection of sites.
- Coordination with owners.
- Technical assistance to owners.
- Assistance with construction plans and permits.
- Facilitating or actively participating in financing the work through such means as revolving loan or grant funds.
- Discussions were also held on improved housing allowance programs and the possibility of bank loan guarantees.

The project helped develop a competitive private property management sector through efforts such as the following:

- Encouraging participation by both large and small management firms in the site-selection process.
- Helping owners understand the advantages of professional management.
- Incidental training in business development and property management skills, as opportunities arose.
- Coordinating with other USAID-sponsored technical assistance projects aimed at strengthening the private property management sector.

The project team made numerous visits to banks (central offices and branches in



the respective project cities), to explain the project, to investigate experience with condominium lending (subsidized and unsubsidized), to determine interest in participating in the project, and to provide information on project experience as it went forward. Issues addressed with lenders included:

- Loans to owners' associations as opposed to individual owners.
- The problem of individual owners who are unable to pay.
- Possible role of the local government as guarantor or co-financier.

Following consultations with members of the project team, the OTP changed its internal regulations to facilitate lending under the state-subsidized condominium loans program, to allow one loan to be made to an entire owners' association (rather than small loans to individual owners) and to increase flexibility in evaluating acceptable collateral. Other banks are now expressing more interest in condominium lending, and are adopting regulations that follow or surpass the improvements made in the OTP loan program.

The project resulted in five condominiums undertaking some common area renovation during the period from mid-1998 to mid-1999; one rejected a renovation plan; and the seventh deferred renovation until after a legal change (a division of one condominium into three separate ones) could be effected. The project assisted owners with assembling financing for rehabilitation from one or more of the following sources:

- Owners' own funds (cash or savings).
- Owners' association renovation accounts.
- The central government loan repayment subsidy (for bank loans to qualified condominiums).
- Municipal loans and grants.

A series of three conferences formed one of the principal dissemination mechanisms for the project. At the housing finance conference in late 1998, a panel outlined the main characteristics of this market and presented some of the key issues facing lenders in this field. In preparation for this conference a brief market analysis was prepared. Urgent works required in the short term in Hungary were estimated to come to HUF 130 to 150 billion. Also the ability of owners to be able to afford renovation is more optimistic than expected. For example, about 70 percent of condominiums have renovation funds already, and arrears are not likely to present a significant problem (only 3 percent of condominiums have arrears of more than 40 percent, and where there are arrears, more than half the delinquents can afford to pay).

As part of efforts to disseminate and institutionalize lessons learned during the project, a Conference on Municipal Support for Condominiums, attended by 130, was

held in Budapest in January 1999. The conference covered municipal loan programs, with emphasis on the issues of loans vs. grants and targeting to low income residents. The new OTP condominium loan procedures, adopted with the assistance and encouragement of project experts, were discussed. The concept of moving toward greater reliance on bank loans was a recurring theme of the conference, and the selective use of loan guarantees from local governments to facilitate bank loans for poorer condominium residents was discussed. The accompanying press conference was able to multiply the dissemination effects of the conference. Broad arrays of stories in print and electronic media were produced, highlighting the financial and social aspects of renovation and the importance of the local government role.

Another national conference in March 1999, designed to disseminate and institutionalize lessons learned during the Project, emphasized the role of private property managers in renovation projects drew an audience of 170. The conferees demonstrated widespread interest in the field of property management, both as a highly attractive career or business opportunity for management practitioners, and as a means of helping condominiums operate more efficiently and of developing opportunities and plans for improving building conditions and market value of the living units. The conference presented information on the role of local governments in providing education and technical assistance to owners' associations, to promote effective operations of condominiums, including renovation. Major components of such a program include sponsorship of formal training programs, "clubs" or regular forums for dissemination of information and networking among condominiums, and the use of experts to assist with problem solving for individual buildings.

The team also prepared three handbooks aimed at property managers, lenders, and local governments. The handbook for property managers is divided into two sections, one on technical information and one on financial information. Financial information is emphasized; however, useful technical information is also provided, particularly on the possibilities of undertaking projects that will result in cost savings for the building through energy conservation, and on practical solutions to the problems of organizing owners and selecting contractors.

The handbook for lenders is intended to show that condominium renovation loans represent a secure and financially attractive new market for banks. It is aimed both at banks that already have condominium renovation loan programs, using the state-financed repayment subsidy, and those that are considering entering this market. It encourages lenders to adopt some new concepts developed through the project. Such as emphasizing "common loans" to associations rather than to individual owners, and the acceptability of various forms of collateral other than liens on individual units, such as use as security of income from commonly-owned rental property or income from owners' monthly fees.



The handbook aimed at local governments explains how they can provide various types of assistance to condominiums with maintaining, repairing and improving their buildings and with acquiring money to pay for the work that must be done, through means such as loans or grants funded by the municipality. Information about access to bank loans, including the state-subsidized condominium renovation loan program, training and technical information, or cooperating with private owners in organizing and financing renovation projects (as owner of unsold rental units in privatized buildings). The handbook also advises the municipality on how to establish an “Office of Condominium Services,” staffed with experts and advocates for homeowners in multifamily buildings.

Impacts

The project had a major impact on loan procedures at the OTP, the dominant lender in the area. Loan programs geared toward making a combined, single loan to a condominium association, rather than a series of separate loans to individual families, are much more successful. The cumbersome paperwork for multiple separate loans, not to mention the effort required from individuals to make applications and provide documentation, make this approach unattractive for banks and unworkable for all but the most motivated condominiums. As a result of its participation in the project, the OTP initiated a new joint loan approach, which they indicate they hope will become the normal way of handling condominium renovation loans. Two new lenders have also entered the condominium field over the past year. (See Indicator, above.) There are already signs that the new lenders are also considering the joint-loan approach.

All parties participating in the work were strengthened. Local governments became more supportive of renovation and more aware of underlying issues and problems. Three municipalities participating in the project set up new programs to facilitate condominium renovations, while after the January conference several more implemented such programs. (In Budapest, for instance, three new programs were established; currently 19 out of 23 local governments have them.)

All the buildings that cooperated with the project, 5 overall, made major steps towards undertaking renovation projects. All at least started to accumulate renovation funds and took part in municipal tenders, while some actually began to carry out needed renovations.

New connections were established in the cities where the project was carried out. Municipalities, bankers, and property managers started to communicate, and it is likely that communication will continue following project close-out.

The project also had an impact on central government policy; the housing concept now allows individuals to receive support from municipalities, with a central government subsidy, to finance the renovation of common areas.

Lessons Learned

Even those condominiums with owners of modest means can undertake critical renovation projects if they are educated about the needs and the means to do so. Once owners understand that no, interest or subsidized, interest loans are available and how low the actual monthly costs of repayment may be, and that some localities have grant programs available, most adopt a more positive attitude about such undertakings. Owners can increase the common fee in order to repay a common loan. Banks in Hungary are beginning in 1999 to accept the concept of a "common loan" to the association rather than a series of small loans to individual owners (a loan design developed and recommended by the project team), which should boost the acceptance of borrowing among condominiums. The simple act of initiating a renovation account for the condominium can create a more favorable attitude toward renovation. Two pilot buildings voted to implement renovation accounts for the first time in 1998. Even modest monthly renovation fees can yield reserves substantial enough to undertake a project within a year or two.

Arrears may pose an impediment to borrowing by a condominium, but action to reduce arrears can be taken by any condominium with the will to focus on this problem. This was demonstrated in three of the pilot buildings, including the poorer condominiums in the group. Starting with good bookkeeping and regular notices to those in arrears, and followed by personal visits by members of the executive committee, the common representative, or the property manager, a low-key approach can be taken. Discussions can include design of a payment plan for delinquent owners. If these attempts fail, then legal action can be taken. Sometimes the threat of court action is enough to prompt repayments of arrears; in other cases, a multi-year court process may be required. Initiation of court action, though difficult and expensive, is a useful deterrent to other delinquencies.

While reaching consensus on a first renovation project may require lengthy discussion, after the first project is completed successfully the process is likely to become easier. In one pilot building, owners pleased with the results of balcony renovations began to suggest ideas for additional projects and even volunteered time to work on improvements themselves. Ideally, a condominium should adopt a step-by-step, multi-year process of building renovation. This avoids a major commitment of funds all at once and, if there are several major systems, which require renovation, the condominium can address them in a rational progression. If necessary, funds can be borrowed for the necessary term, perhaps 3 to 5 years. After repayment of that loan, another project can be undertaken with the possibility of another loan. This avoids major increases in monthly charges yet allows major renovation over a period of 10 to 15 years. Because of the low rate of turnover or transience (relative to patterns in the US, for example), owners in Hungary should be encouraged to develop such a longer time horizon for renovation planning.



Hungary has a growing number of property managers who are technically capable to advice on building maintenance and renovation, and many capable building contractors available to carry out the work. However, the managers have less experience with the social and psychological challenges of assisting a group of owners cooperate in making decisions and carrying them out. Additionally, the practice of applying for institutional financing for renovation projects is very new in Hungary; property managers need more exposure to and training on this practice.

Many local governments are prepared to give financial assistance and other aid to support condominium renovation, including extending grants or interest-free loans. In fact, extending financial assistance seems to be more common than giving technical assistance, probably because it requires less planning and less extensive expertise on condominiums. However, there are severe financial limitations in most local government budgets, which constrain the amount of financial aid that will be available on an ongoing basis. The small size of most local renovation loan funds means that only a few buildings will be able to obtain this assistance each year. It would be wise for local governments to expand into technical assistance, where a well-organized program could have longer-term impact working with a limited budget.

Loans from either local government or banks are certain to become more common in the future. Rather than affordability of monthly loan payments, the more critical hurdle will become what collateral will be required to obtain a loan. Where liens on individual flats become necessary, it is more difficult to mobilize broad support to proceed. As an alternative, allowing a pledge of a lease on commonly owned space or a lien on such property would facilitate a higher volume of lending to condominiums. Another alternative is to allow some owners to pay cash to avoid involvement with a loan, while others accept liens on their units. In the future, more thought should be given to additional, innovative methods of providing collateral, to avoid the difficult and cumbersome requirement of liens on many individual flats.

Some efforts to work with local governments were unsuccessful. In Székesfehérvár, the personality of the counterpart stymied progress-housing issues were controlled by an elderly woman who was unable to change her traditional ways of thinking. Economic realities terminated an attic conversion project in District III; the project was not economically viable because of a lack of parking places in the area. These efforts illustrate two lessons not infrequently learned in technical assistance work. First, progress can be dependent on the personalities involved, and such problems are often exacerbated by cultural gaps. The District III example shows that technical assistance cannot proceed if the end result is not financially desirable from the point of view of the recipients.

The active involvement of a skilled property manager is important to navigate a renovation project through financing, technical planning and bidding, and building politics, while a resident serving as a common representative is less likely to have

adequate expertise to complete a complex project. In either case, the owners must have a high level of trust in the manager. In order to support a high volume of renovation work in the future, owners must become more aware of the benefit of professional management, including the potential cost savings resulting from careful financial planning and proper maintenance of a building in good structural condition.

Programmatically, an important lesson of this project is that effectiveness is dramatically heightened by proceeding at several levels, through legislation, government policy, and work with lenders, property managers, local governments, and condominiums. First, the advances in each area strengthened the ability of the other sectors to implement change as well. In addition, the simple knowledge that the project was working on all levels greatly enhanced team credibility, and gave the various actors confidence to proceed with their innovations.

Measures for Institutionalization and After-Program Impact

The three cities involved in the project will serve as replicable models, encouraging other cities and their constituents to launch similar projects. To facilitate institutionalization of project principles, each local government was encouraged to designate a staff person responsible for becoming knowledgeable about the project and to coordinate activities among the city and the team, the owners in condominiums, property managers, and other participants. The liaison was seen as the locus for transfer of capability to provide information and technical assistance to other buildings after the end of the project, and as a model for use by other cities that want to adopt similar programs.

Throughout the project, efforts directed toward owners' associations, property managers, and local officials were designed with the idea of developing rehabilitation projects and related methodologies that others who were not part of the project could implement on their own with the assistance of written materials and, where available, with local condominium expertise. Steps to be taken to ensure sustainability of project results included:

- Selection of typical owners' associations for specific projects.
- Selection and technical design of rehabilitation projects with widespread appeal and utility, emphasizing those which could result in cost-savings or income to the association.
- Educating owners in the value of investing their own funds in rehabilitation.
- Educating owners in the importance of physical and financial planning and effective property management.



- Training for local government staff in providing technical assistance to owners.
- Encouraging use of renewable outside funding sources.
- Policy changes made by the most important lender, the OTP, ensure definitive, lasting change with respect to bank loans.
- Delivery of three national conferences, including one geared toward the role of local governments and one toward the role of private property managers (both widely attended by representatives of these and other related organizations, including banks), to present lessons learned during the project and encourage adoption of best practices.
- Development of a set of three pamphlets (one for local governments, one for property managers, and one for lenders), to disseminate lessons learned and best practices and to document steps necessary to implement renovation projects geared toward the role of the intended pamphlet recipient.

Contact was established with several Associations who will help in disseminating the results of the projects: LOSZ (Association of Cooperatives and Condominiums), TIVOSZ (Association of Property Managers), the Association of Common Representatives, the Association of Clubs of Common Representatives (Cerberus), and the Miskolc Association of Condominiums.

In addition to wide distribution of handbooks to property managers, local government staff and lenders, the banker handbook will be used by the OTP as training material for a nationwide staff-training program on lending to condominiums.

Strengthening Property Managers: Developing an Association

Strategic Framework

This project provided assistance to private property management firms by establishing and fostering a new professional association in its efforts to broaden its representation and improve the services it offered to its membership. The work contributed to Hungary/USAID's Strategic Objective 1.3: *improved performance of private small and medium enterprises*.

Implementation

After assessing the needs of property management firms, UI helped to establish a private industry association, TIVOSZ, to regulate the sector and strengthen its performance, through developing ethical standards as a means of regulating the industry,

disseminating best practices, and advocating on behalf of its membership to the public and to the government. The first meeting of the general membership of the association took place in October 1997.

The association has already held two successful annual conferences on property management and the new condominium law, each attended by close to 200 professional managers and other experts. In addition a brief leaflet has been produced as an introduction to TIVOSZ. This has been useful, and has been made available in conference packs. A second, larger brochure was also produced, which promotes a more professional image of the association. The leaflet and the brochure leave TIVOSZ with promotional materials to use once USAID has withdrawn. It is also producing a newsletter, which is included in an existing property magazine, *Ingatlan és Befektetés*.

TIVOSZ has been working to establish a training curriculum to reflect the new legislation on property management, which requires private property managers to participate in special training courses and take a qualifying exam. In addition, training was successfully carried out for caretakers it is expected that the course will be repeated soon for caretakers in the countryside.

In May 1998 two members of the Presidium participated in a one-week CIPE training seminar for association managers. During the June 1998 General Assembly meeting, the Presidium of TIVOSZ presented and the Assembly accepted the 1998 budget and the Intermediate Program Plan for 1998 to 2000. The plan has three components: developing "official" educational activities of the association; a newsletter; and external communication strategy. The Association is working on developing member benefits such as a professional certification program and insurance for occupational injury. An English and German web site has been developed and the association has already distributed three issues of its newsletter. The membership stands at close to 30 with ten other firms who have expressed an interest in joining the association.

At the end of the technical assistance, a survey was carried out of both members and non-members (those who had attended conferences on property management and were identified as potential members). The purpose of the survey was to obtain information about perceptions of TIVOSZ, including opinions about its effectiveness, what services were most important and ideas for future development. The survey of non-members also provided a mailing list for the recruitment of new members. The information from the survey has provided the basis for a report to TIVOSZ on its future direction, and is also the basis for a marketing strategy focused on new membership recruitment. For instance, many members stated that they would be willing to contact others to encourage them to join TIVOSZ, and the association intends to use that resource as part of its membership drive.



Impact

An independent and sustainable association was established and is likely to continue. Through the association, managers had an opportunity to learn valuable skills that will facilitate their business operations. For instance, a conference on the new condominium law drew more than 150 participants, who heard presentations on such subjects as new mechanisms to enhance collection of arrears from condominium residents. A second conference focused on an evaluation of the condominium law, which had been in effect for a year, and educated managers on lessons learned during that period. The caretaker training was also well received.

One of the major impacts of TIVOSZ is the contacts it has developed with members of the relevant governmental ministries through their conference participation and through informal meetings with officials, thereby enabling members to share their insights on the regulatory environment with decision makers. However, in a survey of members, the respondents rated their ability to give their opinion in advance on regulatory issues through the association as merely average, with an average score of 3 out of 5, indicating that the association leadership should increase efforts to involve the membership in those contacts.

The impact of the association was enhanced by its developing credibility with the media. Members of the presidium were often contacted by journalists seeking their opinions on legal, economic and technical issues relating to property management, such as the effectiveness of the condominium law and proposed changes to the district heating systems.

The association made strides toward enhancing the transparency of information by providing property managers with a forum in which to share their experiences, and by creating channels for communication such as the newsletter and web sites. However, respondents in the survey felt the association should put more emphasis on the collection and distribution of professional information by the association, particularly regarding opportunities for investment, development and credit.

Lessons Learned

A key feature of association projects in Hungary frequently seems to be a divergence of objectives between the donor and the core association membership. Thus, donors should not expect a particular group to be able to meet quickly all original aims for a new association (e.g., to be national and representative in scope, establish code of ethics, set professional standards, provide broad membership services) or to behave according to original, even mutual, objectives. Rather, donors should find ways to keep stressing the basic principles (ethics, advocacy, and the advantages of broad representation) through both technical assistance and training, and move, even slowly, in the right direction.

Donors and association leadership are particularly likely to have different views of benefits of inclusiveness and sharing information. New associations tend to focus on short term benefits of forming an exclusive “club-like” entity and not yet see the longer term rewards of a broader membership. For example, initial association members are often reluctant to share expertise too broadly for fear of helping the competition. Obviously that instinct is at odds with the need to provide a key association function: to spread information about best practices. One of the best ways to combat the club-like tendency is to emphasize the need for membership recruitment from the very beginning. In addition to the benefits mentioned below, it helps the leadership be aware much earlier of the potential broad reach of their new association.

It is also necessary to be sensitive to differences in business culture and ways of thinking. For instance, a three-year business plan was produced; unfortunately it was developed over a considerably longer period than had been anticipated. The delay between consultation and the actual production of the plan may reflect the fact that TIVOSZ was not sure how useful such a plan can be, and a misunderstanding of what its purpose should be.³ For example, the business plan that was finally produced was extremely detailed in some aspects (e.g., the type of training to be produced) and very sketchy in others (e.g., what demand may exist for the planned courses). A less elaborate plan done more promptly might have helped guide association thinking in formative stages. This experience suggests that it is vital to provide as many crutches as possible to encourage business plan preparation at the psychologically correct stages of organization development. These may include well developed forms that can be adapted with a minimum of effort, or brain storming sessions in which the consultant molds the decisions made into a business plan-like format on the spot. It is also important to make clear to the association’s leadership, based on real life cases, in what specific ways business plans can facilitate business operations. However, association builders should be sure not to over emphasize the production of a business plan, and to make clear it can be just a simple document outlining the association’s main objectives and plans. The attention of both association and those who assist them should remain on the vital money and broad structural questions without expending effort and good will to generate a by-the-book, western-style business plan. It should be noted, however, that the information in the plan formed the basis of the promotional leaflet, which has been produced. It was therefore an important document to produce and has helped TIVOSZ to reflect on its purpose and strategy, even if it is not referred to on a regular basis by the Presidium. Putting together the business plan was an important stage in defining TIVOSZ’s priorities and strategic approach. This then fed into other documents such as the promotional leaflet and brochure, and enabled a consistency of representation.

³ The Urban Institute encountered similar problems in facilitating development of a business plan for the new National Association of Municipal Financial Officers. See discussion below.



In part because of these issues, progress in association building may well be slow and unsteady. Thus, assistance should remain limited and focused both to avoid overwhelming the leadership with tasks and information they are not ready to use, and to make the most efficient investment of donor resources.

In terms of implementation, probably the most significant element that could have been done differently was to engage with members more actively at an earlier stage, for example through the survey, membership recruitment and targeted meetings for potential members. Indeed, surveyed members rated the association's ability to get the members involved as weak, with an average score of 2.73 out of 5.

Moreover, a major weakness was membership recruitment, which was identified as a priority for TIVOSZ in its business plan. In practice other issues often took priority, such as the newsletter, trainings and conference organization. There were concerns by TIVOSZ that it did not provide enough services to attract new members, and that a first priority was to address that issue. There was also a sense that TIVOSZ had established a way of operating and seats of power within the Presidium, and that they did not want to change that or threaten it by involving new and more people. However the Presidium did carry out a lot of the work, and TIVOSZ was very dependent on their voluntary commitment. It may have been beneficial to focus on the development of the Presidium as a governing body, and to target its development. This would have helped to broaden the scope of TIVOSZ and to reduce fears of an increased membership.

More continuity of association development expertise would have been helpful; due to a restructuring of the team, two America-based consultants participated in the project, causing some delay due to having to reestablish a good relationship. TIVOSZ did employ one of its members as a part-time administrator. The intention was to support TIVOSZ to employ a professional with expertise in managing an association, however at that stage of development TIVOSZ was more comfortable with a more familiar face. The lack of a staff member who is an expert in associations may have delayed the more professional development of the organization; although it would not have been possible to insist on this there may have been ways of opening TIVOSZ to this possibility in a more positive way.

A survey of members revealed that virtually all of them are also members of other real estate associations, including the Association of Hungarian Property Managers, the National Association of Housing Cooperatives, the Interest-Representing Association of Housing Managers and the National Association of Cerberus Condominium Clubs, and others. It may be that a shake out of the proliferation of real estate management associations is inevitable; thus, the long-term future of TIVOSZ, particularly as an independent entity, may be affected. While it is clear that association builders should survey the "competition" and consider strategies that might include collaboration with other associations, this sort of evolution, in which associations may be formed and merge and possibly disappear, is probably inevitable in a changing

environment such as during this transition to a market economy. It should be noted that should an association subsequently dissolve, those involved in the assistance program will retain many of the lessons for use in another forum. In any case, given the nature of the other associations – who largely represent large, formerly state-owned property management firms and/or individual condominium representatives – TIVOSZ does currently fill a void by offering a specific voice to small private property managers. Part of the technical assistance provided to such an association should be directed at enabling them to compete with other established associations.

Especially when providing direct financial support to associations it becomes imperative to be extremely clear about what is possible, and what the procedures are. For example, USAID procurement methods had to be explained multiple times and were still misunderstood. Expectations are also likely to be exaggerated, so care should be taken to be clear and to put projected assistance in writing.

Measures for Institutionalization and After-Program Impact

The Association will continue operations on a self-financing basis, relying on dues and training fees. Their contacts with the property management sector, the national government, and with experts in the field should all help the Association stay informed and involved. The membership recruitment strategy, including the recent survey results and association materials will also help the Association expand its reach.

Strengthening Real Estate Development: Training for Developers and Lenders

Strategic Framework

This project provided assistance to private housing development firms by assisting banks in the development of a construction lending policy and providing the necessary business skills to enable private firms to develop more housing and become successful in the marketplace. The work contributed to Hungary/USAID's Strategic Objective 1.3: *improved performance of private small and medium enterprises*.

Implementation

Following an extensive review of the constraints facing small private housing developers, UI began work with developers, banks, and local governments in three municipalities to form an integrated training and technical assistance program. Training focused on impediments to developing housing such as the lack of developer expertise in the areas of adequately assessing market conditions, producing project feasibility studies, preparing effective loan application presentations, and preparing detailed development proposals that take into account rapidly increasing building costs. The sessions also provided bank officers with skills needed to increase developers' access to credit. Five training sessions were held in Nyíregyháza and Budapest for joint audiences of



developers and bankers to address issues such as loan policies and procedures and project assessment and development.

A national conference was held in Nyíregyháza in the spring of 1999 for 100 developers and lenders, to discuss the principal obstacles and challenges in the evolution towards an effective and vibrant market-based residential development sector. Topics included understanding market demand, marketing, collateral requirements and the role of local governments in housing development process. A Nyíregyháza housing development market study and five year economic projection, created with the assistance of club members, was presented at the conference to illustrate that undertaking market studies is both feasible and useful.

Handbooks for both developers and bankers have been prepared based on the training materials and were widely distributed. The developer handbook explained how developers can make sure that they are working on a successful project, how to convince banks to fund their projects, and how to sell their products at a good price and at the right time. The handbook targeted at bankers discussed aspects of lending policy and procedures, including loan documentation, underwriting, loan approval and closing, loan advance procedures, and collections and workout.

Impacts

One of the greatest benefits from the training sessions was the opportunity for bankers and developers to meet face to face to discuss their common ground and their areas of disagreement. It seems that the evolution of this relationship into one of respectful adversaries will be at the core of the development of the industry. Developers, for instance, could get an inside view of how bankers thought by participating in the training targeted at bankers.

Simultaneously, major changes were created in bankers' views of developers. The success of this process is demonstrated by the efforts of a development project in Nyíregyháza to receive financing after the conference took place in that city. Before the conference, efforts to find funding were unsuccessful. Afterward it was used as a case study at the conference, bankers sought the principal out, the company negotiated with 5 banks, and is now awaiting better offers from two interested banks. This "bidding" process is quite unusual. A few years ago, the biggest commercial bank prohibited applicants from applying to other banks while it was considering the application, indicating that procedures have changed for the better. Further, competition between banks to provide their services to a developer is a very recent development.

In addition, although these results cannot be directly tied to participation in the seminars, recently several banks have begun to create new development loan products, such as joint financing for developers and buyers, while at least one has newly entered the field.

Now developers especially have acquired important technical knowledge. The training took developers through the entire development process, with a particular focus on market research and analysis of demand, project feasibility, and supply. Developers' ability to access finance was also enhanced through delivery of detailed explanations of how to complete a loan application. In addition, bankers received extensive training on key aspects of lending policy and procedures.

An important part of the project was the initiation of clubs including bankers, local government officials and developers to share their experience and expertise, and continue the process set in motion by the seminars. It appears that developers located outside of Budapest will be the main target for the clubs, as they have less access to the kind of information the club could provide. As usual, it is expected that development of the clubs may be hampered by developers' unwillingness to share information with others not members of the "clan", but the spontaneous establishment of these groups in the first place is a sign that mutual distrust is diminishing somewhat. In addition, the National Association of Housing Developers (MALOSZ) has recently been launched, in part because of the founders' participation in the seminars.⁴

Lessons Learned

The project was highly successful in improving bankers' view of the risks and rewards of making finance available to developers. This was in large part due to the enthusiastic participation of high level officials from the OTP (the long time market leader) and HypoVereinsbank Hungary (which is now seeking to create a mortgage lending bank), highlighting yet again that it is essential to seize the interest of those actually able to implement change. It also seems that the training provided in technical concepts was perhaps not so important as the fact the sessions brought the parties together in an atmosphere conducive to discussion and a better understanding each other's way of thinking.

Overall, greater efforts on marketing the program would be likely to have improved the program, primarily if successful in identifying and attracting more developers. This is a hard group to reach, as they are still frequently just potential developers and more actives as architects or builders, or in other professions. In addition, additional participation by municipal officials would have added an interesting new dimension that developers find useful.

Municipal officials showed less interest than expected in the program (averaging 11 percent of participants). Participation might have been increased if, before the series began, high level municipal officials received more information about the seminars, and the importance of the local government role in housing development. It should be noted

⁴ In 1997, an Urban Institute subcontractor explored the possibility of forming a professional association of developers. It was concluded that such a project was not practicable at that time due to the nascent state of the industry and because of time constraints.



that 80 percent of participating municipal officials attended only a single session, suggesting that new materials could have been developed to better meet their needs.

The training sessions themselves were generally well received by the participants. For instance, 80 percent or more of the participants found the various aspects of the structure of the program “just right”, and 76 percent thought the selection of the issues was “good”, while 88 percent found the presenters’ knowledge of the material “good”. However, several participants noted that the examples should have better reflected the Hungarian experience, indicating the continuing need to ensure that presenters, who are often Americans with limited experience in the region, receive assistance in “Hungarianizing” their materials. Participants also sometimes felt that American experts presented limited new information, perhaps because the experts did not know the level of the developers’ pre-existing knowledge. This experience makes clear that a more precise assessment of pre-existing knowledge is vital. It should be noted that this task may prove difficult because self-assessment may be inaccurate; trainers must be alert to feedback during sessions so that the product can be improved for later use.

It should be noted that the seminars offered an opportunity to compare trainings offered in the countryside as opposed to in Budapest, as the sessions were offered in both. Certainly there are benefits to presenting training in the countryside, particularly because so many training opportunities are already available in Budapest. The participants were more engaged in the smaller cities and the synergy among participants was stronger. Moreover, the attrition was less than in Budapest, perhaps because the participants had fewer time constraints. Undoubtedly, fewer participants attended regularly in the countryside than in Budapest; indeed, attendance was so low in one city, Zalaegerszeg, that the sessions were canceled. Yet in smaller cities attendees were usually those important persons who could actually make a difference in the development process, while in Budapest, a larger number attended, but the developers were smaller and less experienced. However, persuading participants from the countryside to join the training was indeed difficult; it may be that affiliating with a local partner such as a chamber would add credibility to the effort.

Measures for Institutionalization and After-Program Impact

The new understanding of each other on the part of bankers and developers will facilitate the development of the sector without further USAID intervention.

Various groups–networks in Nyiregyhaza, Budapest, and Zalaegerszég, and MALOSZ–have been formed and are likely to continue to meet in some form to share resources and ideas.

The national conference held in Nyiregyháza to mark the end of the training program reached a large number of developers and bankers, as well as attracting national and local press. The press conference held at the conference managed to convey the

most important messages. Press coverage focused on the lack of cooperation between banks and developers. Most articles highlighted the low percentage of housing built by professional developers and referred to the fact that this percentage is considerably higher in Western countries. In accounting for this phenomenon, the media mentioned the high collateral demanded by banks and the difficulty of pre-financing housing construction. Understanding of these issues should encourage movement towards greater collaboration between different industry actors and eventually a larger percent of professional construction.

Two manuals were prepared for developers and lenders on the main issues covered during the training sessions. These have been widely distributed to private developers and lenders throughout Hungary, and to key organizations that have contacts with the residential construction industry.

Team members produced the first usable nation-wide list of developers and bankers. The list is being distributed to interested parties such as the government and real estate associations, enhancing the ability of members of the sector to work together in the future.

Fostering Development of the Private Rental Market

Strategic Framework

This project sought to analyze the supply of private rental housing and propose mechanisms to increase viability of the sector, because the private rental sector, now comprising less than five percent of all housing units in Hungary, is a promising new market for property managers. The work contributed to Hungary/USAID's Strategic Object 1.3: *improved performance of private small and medium enterprises*.

Implementation

Since privatization, rental units make up less than 15 percent of all housing in Hungary. It is estimated that private rentals form less than 5 percent of the housing stock, but very little is known about the sector. A report was prepared describing the supply and demand in the sector, and what disincentives potential private landlords face and making recommendations for facilitating development of the sector. Findings included punitive taxation on rental income which led to a change in legislation for 1999 to a flat 20 percent tax rather than considering the revenue as equal to other personal income.

Impacts

The report was the first extensive evaluation of the private rental sector in Hungary. As such, it should help generate a dialogue on further steps to foster the



sector, which would indeed have a spreading impact on the Hungarian economy and facilitate mobility and personal satisfaction among the citizenry.

At least one of the suggestions included in the report was presented to the government through the housing policy subcommittee (discussed below in the housing finance section) and has already been adopted. As noted above, new legislation reduced taxation on rental income to a flat 20 percent, which should encourage tax compliance and also improve the ultimate return on investments in rental estate, and thus help increase the size of the sector.

Lessons Learned

The report was completed late in the life of the USAID project, in part because the sector was so extremely underdeveloped that even determining the proper methodology proved difficult. Thus, insufficient time remained to attempt to implement the recommendations contained in the report.

This experience indicates that USAID should proceed with caution when targeting a broad subject area that suffers from extreme systemic problems. It is likely to prove most efficacious if efforts to analyze the root issues are launched early enough in the life of the overall project that time will remain to carry out remedial work.

Measures for Institutionalization and After-Program Impact. The report, with specific policy recommendations, will be distributed to policy makers.

INCREASING LOCAL GOVERNMENT CAPACITY

The USAID Local Government Strategic Objective sought to increase participation by citizens in local decision making. Work was based on the thesis that increasing the flow of useful information to citizens, as well as making municipalities more effective and responsive to their constituents, will increase citizen participation in local governance and insure Hungary's transition to democracy. UI's program, therefore, had two main thrusts. First, through efforts targeted at increasing the transparency of financial information and at encouraging local officials to value and foster citizen participation, public access to information was increased. Second, because the provision of urban services is one of the most basic responsibilities of municipal governments, and is one of the foremost on which a government's performance is judged, the program sought to improve the general management capacity of local governments by enabling them to effectively finance the efficient development and provision of urban services, as well as making performance measurement and contracting more efficient.

The ability of municipalities to provide transparent, effectively financed services was impeded by a number of constraints. Municipalities often were without modern budgeting and financial management skills and had little ability to track resource usage or to plan for future needs. As a result, their budgets were dense with line item detail focused on what goods and services will be purchased without any consideration of whether the items will create a better government for their citizens, and with little to help citizens to understand what is truly happening in their cities. Assistance in improved financial administration was provided to municipalities to enable them to finance and manage service delivery through better financial management techniques. Besides improving the management capacity of the participant cities, the budgetary reform enabled cities to link community needs, trends and government priorities in a transparent, understandable way.

Access to finance is discouraged by the national legal and policy framework, which has a subsidy system with contradictory incentives. Intergovernmental transfers from the national level to the municipalities remain an important source of revenue for localities, encouraging dependence and less accountability on the part of municipal officials. Moreover, central transfers are decreasing; for instance, central government allocations of normative subsidies are made unilaterally at the end of each year and the share of personal income tax returned to the local government has decreased from 100% to under 35%. Decreasing and unpredictable revenues make it imperative for local governments to strengthen their ability to raise their own revenues. Assistance was provided to municipalities to increase own source revenues through the creation and implementation of property tax policies and strategies for revenue generation through more efficient outsourcing of governmental services. To this end, UI worked on a program of assistance to six local governments in own source revenue generation and financial management, including projects on performance measurement, contracting out of public services, and the introduction of an *ad valorem* residential property tax. The close affiliation of this project to the World Bank's Subnational Development Program (SNDP) enabled UI to provide direct information for policy recommendations to the Government of Hungary regarding legislative and regulatory changes that could increase local government effectiveness.

Indicators

The following indicators were adopted as success indicators for the overall Municipal program. As shown below, most of these goals were fully met, and indeed exceeded. At the highest level, survey results showed a great improvement in citizens' attitudes towards local governments, which rose from an average approval rating of 38 percent in 1996 to 51 percent in 1998. Average responses to a question rating citizen ability to affect local governmental activities similarly rose from 41 percent in 1996 to 50 percent in 1998. Both these achievements exceeded the targeted amount by 5 to 6 percentage points.



Indicators relating to targeted municipal officials' responsiveness to citizens also showed substantial progress. More than twice as many targeted officials rated citizens as the most important group from whom to seek budgetary input than those officials from control group cities. The number of targeted officials rating citizens as the most important group whose needs should be met when formulating the budget also far exceeded the number of control group officials, although that figure did not quite achieve the targeted level.

The indicators also show that the program improved the general management capacity of local governments, with thirty-five cities reporting that they had adopted modern financial management techniques. Institutional changes are now in place to support these efforts, as shown by the establishment of the association of municipal finance officers contemplated by the indicator. In addition, the increase in own-source revenues exceeded the target.

Indicator	Target	Achievement
Citizens' satisfaction with local government is increased.	The percent average of survey responses related to citizen satisfaction with local government (with 0 equaling total dissatisfaction and 100 indicating total satisfaction) increases to 45 percent in 1998.	Percentage average is 51 percent in 1998.
Citizens' rating of opportunities to participate in local decisions is increased.	The percent average of citizen survey responses related to ability to participate (with 0 equaling total inability and 100 indicating total ability) increases to 45 percent in 1998.	Percentage average is 50 percent in 1998.
Targeted municipal officials put more importance on responding to citizens' need when formulating the budget.	The number of targeted municipal officials who rate citizens as the most important group to whose needs the budget should respond is twice the number of officials in control group cities in 1999.	The number of targeted officials is 166 percent of the number of control group officials.
Targeted municipal officials put more importance on receiving budgetary information from citizens.	The number of targeted municipal officials who rate citizens as the most important group from whom to seek budgetary information is twice the number of officials in control group cities in 1999.	The number of targeted officials is 285 percent of the number of control group cities.
Municipal budgets are used as management tools.	Thirty cities introduce budgeting innovations, e.g., program budgeting and such techniques disseminated through association of municipal finance officials.	Thirty-five cities have introduced budgeting innovations.
Separate operating and capital	Fifteen cities adopt modern	Because of changes in

Indicator	Target	Achievement
budgets are adopted.	budgeting techniques, including separate operation and capital budgets.	regulations, most mid-size and large Hungarian cities have now adopted separate capital budgets.
Association of municipal finance officers is a viable, sustainable entity.	Network of financial officers is self-financed and has 50 plus members by April 1999.	Association is self-financed and had 56 members by July 1999, and a heavy flow of applications, following a major membership recruitment campaign launched in the spring of 1999.
Own-source revenues increased.	Own source revenues increased 20 percent in 1999 over 1995.	Own resources increased by 26 percent as a share of total revenues between 1995 and 1998.

DISCUSSION OF PROJECTS

Building Local Government Finance Capacity

Strategic Framework

This project carried out work with several Hungarian local governments to assess critical aspects of current financial status and to develop programs of technical assistance to build capacity in local government finance analysis. The project included the collection and analysis of financial information to be used as input into central government policy development. This was one of the tasks under the life-of-project work plan for improving municipal service delivery, which contributes to Hungary/USAID's Strategic Objective 2.1: *better informed citizens increase their participation at the local level.*

Overall Project Implementation

A team of US and Hungarian specialists worked with six local governments to assess critical aspects of current financial status and to develop programs of technical assistance to build capacity in local government finance analysis. The program was carried out in cooperation with the World Bank's Subnational Development Program (SNDP), which is spearheading the development of a report for central government policy-makers on local government finance and which also has agreed to provide future support to the city assistance projects.

The cities, Nagykanizsa, Orosháza, Püspökladány, Szentes, Szolnok, and Tatabánya, were selected based on regional and economic diversity. In the first phase of the project, information was gathered both for input into central government policy development and for developing assistance programs. Near the end of this process, the



team and municipal officials working together outlined technical assistance projects for each city in one of these areas. The primary areas identified for study and assistance were: preparation of a model Hungarian contract for contracting out public services; improvement of effectiveness of performance measurement; and improvement of local tax generation and collection.

In the second phase project teams conducted surveys and needs assessments, from which they developed options papers on property tax and performance measurement, and a summary of recommendations for those preparing municipal contracts. A customer survey was conducted across the six cities, for example, resulting in a comparative database of performance indicators for several different municipal services. An advisory group was also formed of experts and representatives from the central and local governments. The final phase of the project included implementation of the options, as described below in separate discussions of each sub-project, and presentation of preliminary results at the national *Modernizing Municipal Financial Management* conference in May 1999.

The following discusses individually implementation, impacts, and lessons learned for each of the three sub-projects, beginning with the introduction of a value-based property tax, followed by work with performance measurement and efforts to formulate a model contract for service provision. After these discussions, project-wide measures for institutionalization and after-program impact are detailed. The final section describes general lessons learned while conducting the project.

Introducing a Value-Based Residential Property Tax

Implementation

The project examining the possibility of introducing a value-based property tax took place with the participation of two towns, Püspökladány and Tatabánya, beginning in November 1998. The motives of the two cities were different, consequently the work intensity of their co-operation also differed. In Püspökladány, the need for a new type of tax was pressing due to the city's financial difficulties. Since in November the assembly of representatives rejected two simpler tax type variations -- communal and floor area-based property taxes, the local government deemed it inevitable to implement a value-based property tax. The financial difficulties of the city, however, created a new situation in February. At the time of compiling the city budget, the assembly of representatives was forced to introduce a new tax, the communal tax for private individuals. As the introduction was not preceded by any preparations, the population of the city was surprised by the decision. This evoked a huge wave of protests and low compliance. The local government recognized the tax was likely to fail, so it intends to introduce a value-based property tax. To carry out the process, it hoped to get a high degree of assistance from UI in both overcoming technical difficulties and in elaborating a communication strategy to facilitate its acceptance by citizens.

Tatabánya is not facing any immediate financial difficulties. The city intends to reform its old tax system by introducing a value-based property tax, to make it simpler, more fair, and transparent. Due to the less urgent deadline, Tatabánya was initially not prepared to move quickly, but the achievements presented for Püspökladány in the May conference convinced the leadership of the usefulness of the project and Tatabánya would now like to perform detailed analyses. The cities of Szentes and Szolnok also expressed interest in connection with the simulation program package presented at the conference and also were able to participate briefly in the project.

As the work progressed the farthest in Püspökladány, the following discusses the work there. Consultants prepared a series of tax simulations. After entering the parameters (tax rate, exemptions) defined by the local government, it was possible to quantify the expected revenue of the local government and the size of burdens on various population groups (status, income groups, family types, unemployed, etc.) with the help of the program. The program greatly promoted political decision-making as it is also suitable for comparing a number of scenarios, and thus is able to show the local government which social group is actually preferred by the introduction of a given exemption, and how much of revenue the local government would lose as a result of it. UI provided this program to the experts of the co-operating local governments, who are currently learning to apply it.

The other issue on which the local governments expected tangible help and which Püspökladány, having learned the hard way, considered to have special importance, was the elaboration of a communication strategy for the cities. The strategy outlined the most critical issues that must be shared with citizens – the relationship between revenues and city services, what the tax is, why it is necessary, what provisions there are for affordability and for appeals, what is expected of each taxpayer – and gives advice on how and when to present these issues. It also includes a step-by-step implementation plan combining policy actions, technical steps, and communications tasks over an 18 to 22 month period.

Impacts

Though the primary objective of the project was to yield tangible and useable results for the local governments, research also continued in the framework of this project at a more general level. This yielded first a review of the local revenue policy and tax administration of all six cities, and then a study presenting the prospects of value-based property tax in Hungary in the light of international practice. These studies were made available to other local governments at the *Modernizing Municipal Financial Management* conference in May 1999, as well as by direct mailing to all larger Hungarian municipalities.



As a result of the project, Püspökladány and Tatabánya are expected to introduce the new tax as early as the next financial year, while Szentes is also expected to consider this alternative when it transforms its tax system within the next few years.

Lessons Learned

First, the project shed light on the difficulties of technical implementation and, in most cases, yielded successful proposals for solutions. It also revealed the shortfalls of the legislative background, and the final report was able to include recommendations for legislative change. Third, reactions from local government staff showed that the greatest resistance relates not primarily to value-based property tax but to the general issue of affordability – that is, the burden on households from the aggregate of population taxes.

Because of these concerns, work in this area should emphasize an analysis of affordability in the broad context of local government financing, clarifying that for most of the populace, this tax will not be a large burden and that simple income-based exemptions can ensure that the poorest segments are not liable for a tax they are unable to pay. With respect to the issue of aggregate tax burdens, citizens first need to understand that by international standards the total level of taxation is not so high – what is important is that voters should be happy with the balance between taxes paid and services received. However, it is certainly an important issue to be considered by the national government, and both the tax team and the overall SNDP project have recommended that the government consider measures to reduce household taxes as local taxation increases. The communications strategy that was prepared includes sample questions and answers that should go far to helping alleviate this kind of concern both among local staff and the general public.

Another common misperception has to do with business taxes, which are now by far the most commonly levied local taxes. Probably because it is not seen as having direct electoral consequences, the perception is that a business tax is politically easier to levy; it is therefore probably being overused. The negative consequence – e.g., loss of investors and entrepreneurs – are not often considered. Further, the business tax is usually misleadingly portrayed as not burdening households, whereas in fact, the tax is inevitably passed on to the consumer. Therefore it was important to include in written materials a summary of the advantages and disadvantages of all local taxes.

Interestingly, much of the resistance seems to be more attitudinal than fact-based – with financial officers seeming to react more as potential taxpayers than as staff concerned with collecting adequate municipal revenue, so more than factual analysis is needed to address these issues. The communications strategy plays a double role, working to mitigate staff concerns while addressing the expected reactions of citizens. An additional product that should go far to improve attitudes city-wide is a citizen brochure providing information about the city government, emphasizing the city's open-door policy, relating services to revenues and expenditures, and explaining taxes in a broader context. A

model brochure was prepared for use by Püspökladány as a first step in their communication strategy with one aim being to foster acceptance of the new tax, and will be widely circulated to other cities for adaptation.

Performance Measurement

Implementation

Decentralization means the devolution of authority and fiscal control to local governments. It is not yet clear, however, to what extent decentralization is resulting in improved services. Making this determination requires more in-depth evaluation and implementation of a management system that enables public service providers to regularly track and measure improvement—or decline—over time and across services. The system should also allow for regular reporting of the results of such efforts to the citizenry and elected officials.

Because the primary thrust of performance measurement lies in its potential to provide front-line service providers with the necessary information to make meaningful evaluations of service delivery, the performance measurement team decided to approach the heads of departments and program managers in order to acquaint them with the concept and begin designing plans for implementation.

UI's initial efforts to introduce performance measurement to the cities, however, met with misunderstanding as to its utility and purpose. Local government staff and especially finance directors tended to equate the principles of performance measurement with those of rationalization. In other words, local government staff largely saw performance measurement as a means to justify cutting back on institutional and program spending. This led several local governments to request technical assistance with respect to performance measurement in the education sector, which is in desperate need of a restructuring that will inevitably lead to the closing of schools.

Although performance measurement does allow program managers to evaluate institutional efficiency, UI wished to emphasize its embedded principles of transparency and accountability, as well as the empowerment effects it may have on local government management strategies vis à vis higher authorities (whether the central government or upper management within the local government). The fact that many local governments wished to use performance measurement solely as a tool for cutting back spending, especially in the education sector, led to fears that performance measurement in the future would be negatively equated with such drastic measures, on the part of both city officials and the public.

For these reasons, the team reevaluated its original approach, which resulted in a publication that lays out the main principles and uses of performance measurement and ways in which it can be made operative. Emphasis was placed on the concept of



outcomes, or results, as opposed to the more traditional employment of input and output indicators to gauge efficiency. The team also decided to conduct a multi-service customer survey that would generate a number of performance indicators to be used both as a starting point for implementation and as a baseline for cities to use later on for comparative purposes should they repeat the survey on a regular basis, as recommended. Since the survey was conducted in all six cities simultaneously, comparative data is obtainable not only across time, but across cities as well.

UI lead team also decided to assist three cities in implementing performance measurement in the education sector, solely in order to evaluate citizen satisfaction with the current service provision. In this way, the local government could evaluate schools using existing indicators of inputs and outputs, couple these with the outcome indicators from the survey, and devise efficiency indicators of school performance. Working closely with the head of the educational department, local teachers and heads of schools, as well as a Hungarian consultant who has expertise in the education sphere, the performance measurement team devised a mail survey to be conducted among parents of primary school children.

The education survey assessed satisfaction and preferences of parents over a number of issues, including general expectations of school performance of children, satisfaction with language training, and other school services (e.g., tutoring, study hall, home-schooling) and produced a number of indicators that can now be used in assessing the performance of the schools.

A working group was also set up in Szentes to look at social services in particular, with the objective of reassessing the effectiveness of the city's services. This effort was begun in conjunction with conversations with a key reform-minded official at the Ministry for Social and Family Affairs, whose interest is in beginning to identify ways in which to assess the effect of centrally funded local government social services.

The Six-City Multi-Purpose Household Survey aimed to evaluate wider range of services, including the communal and social sectors as well as local government information systems. The purpose of the survey was to elicit citizen feedback on some of the services local governments perform in order to obtain data for a number of indicators for performance of basic municipal services. It was planned that the results of the survey would be used to identify key problem areas and those service areas that are being performed well. With the help of this information, the agencies can establish action plans for improving upon the results and for providing recognition for good performance.

One of the major criteria for a successful program-based performance measurement system is the involvement, especially at an early phase, of the front-line service managers and providers. This involvement should start well before data collection begins, but is highly crucial at this stage. It is important first and foremost

because it is the program personnel who are closest to the tasks and the problems they face in implementing those tasks, as well as to the people they serve. Therefore, when designing survey questions, UI team sought their input. Secondly, it is important because it is they who will be using the data to initiate a plan of action to resolve the problems, or who need to know that what they are currently doing is working well. Therefore it was important that these people understand the process, why the survey was being conducted, and how they could use the data to improve their operations. In the design phase of the Six-City Survey, a draft was circulated among program managers throughout the six cities. In addition in-person interviews were held with communal sector staff of some of the cities who contributed their personal interests, specific problems, and perceived needs.

Impacts

Although the Performance Measurement Team was not able to fully implement a performance measurement system in any of the tested cities, the impact was still great and is worth noting. Few if any of the participants in the workshops or meetings had ever been exposed to the concept of performance measurement at all, let alone its value as a tool of effective management and governance. The first step in making performance measurement work really lies in a simple change in ways of thinking; informal conversations with city staffers and input during formal workshops demonstrated that this happened more often than not.

The surveys undertaken had impact. A paper on the benefits of employing customer surveys to gauge performance and customer satisfaction with preliminary results of the six-city survey was prepared for the national conference *Modernizing Municipal Financial Management*. Following this, individual survey reports were prepared for the three participating cities, which enabled them to measure quality of service delivery and report those results to the citizenry. These have been distributed among local government staff in charge of the services surveyed. In some cases departmental heads have been asked by the mayor's office to provide feedback on the results. In Orosháza, the survey report was formally presented to the head of the communal services, the notary, and the technical director of the mayor's office. The notary especially saw the value in using the results as a tool of communication, and expressed the intention of using it to establish a dialogue between the local government and the citizenry on mutual expectations, needs, and demands. Finally, a cross-city survey report was submitted to all six cities, which were encouraged to publicize the results in the national and local media.

This sort of survey is not only new to Hungary but rare in the United States as well. The survey results underscored the importance of citizen satisfaction with services—an unusual approach in Hungary today—and cross-city data enabled municipal officials to see themselves in context, to truly evaluate their city's strengths and



weaknesses. This model can serve as a starting point for all Hungarian cities to look at their own services from this perspective.

Lessons Learned

Although the identification of counterparts who are in a position of authority – and hence influence – is crucial, it is important to go beyond these people and broaden the network of direct partners as early as possible. This would allow for better understanding and ownership to be taken by the front-line managers and other relevant local government staff. This is of crucial importance in the implementation phase for other reasons, as well. Basically, the project team organized meetings with program staff *through* the mayor's office; the meetings were therefore invariably presented as formal presentations as opposed to working meetings, which limited feelings of direct ownership among the staff. The lesson is that the establishment of small working groups involving the commitment of people from all levels of government, rather than always working through the highest channels, is key to the success of implementation.

On the other hand, given the subordinate attitude of many a program staff member, the role of upper-level management cannot be underestimated. They need to simultaneously buy into the program and coax their staff to work with the team in developing a meaningful program. Performance measurement in this instance needs to be presented as an enabling practice as opposed to one that sets out to monitor and regulate staff performance, which is how it is often perceived.

The performance measurement team was too small to handle data analysis of the customer surveys for all six cities and the ability to put the data immediately to use for implementation purposes was therefore greatly hampered. In order for the survey to make sense at all, meetings with the local government staff who would be using the data most intensively for program evaluation purposes should have happened on a regular basis. These meetings optimally would have involved semi-intensive training sessions in the principles and uses of performance measurement, and working sessions on identifying outcomes to be measured, identifying indicators to be used in the measurement process, and collecting other relevant data. This process takes a great deal of time and the few months allotted for this process was simply not enough. A recommended approach for the future would be to span the process over *at least* one year and include the following steps:

- The team should hold presentational meeting with the Mayor, Notary, and Finance Director. Get them to identify the key sectors and, further, the sectoral programs for which they would like to begin implementation.
- The Mayor should appoint one of the above to hold a meeting with the heads of the departments and/or programs that the system will target and collaborate with them on specifying the problem areas to be resolved.

- These people should then be introduced to the technical experts and a working team formally established.
- The working team should set up a schedule that would involve no less than one meeting per month over a period of at least 12 months.

Possibly one of the most important lessons learned is that the very concept of performance measurement, as well as its practice, illuminates the extent to which decentralization is taking place—or has the chance to take effect—in post-communist countries. Hungary is known as the most advanced in its decentralization efforts around the former Soviet bloc. Yet the experience with performance measurement definitely shows that the concepts that decentralization brings into the fore—autonomy, both fiscal and political, citizen participation, quality performance, consumer orientation—are not yet deeply felt or embraced by local government personnel. Performance measurement in this sense becomes an interpretive tool for gauging the extent to which decentralization is taking hold and is being promoted by those it purports to benefit.

Although one of the most practical strategies in management, performance measurement is an elusive concept when it comes to implementation into the daily management activities of local governments. This is especially true for local governments whose own histories are brief and whose management precedents involve little room or encouragement for taking the initiative to improve upon services. As has been mentioned, post-communist Hungarian local government staff has little impetus for taking the initiative and designing programs which are meaningful for their own locales. As is the case for many similar projects, the putative success of the project relied on identifying entrepreneurial managers to buy into the concept and see its usefulness. In the team's view, however, this does not serve the principles of sustainability or utility for the common good. Rather, performance measurement needs to become systematized into the daily operation of local government, which requires both upper- and lower-level management to understand its intents and purposes, as well as the how-tos.

Development of a Model Contract

Implementation

One of the most glaring differences between the pre- and post-1989 period in post-communist countries is the degree to which the form of municipal service delivery has diversified. As the state embarked on its project of decentralizing a large bulk of its competencies to local governments, the latter found themselves with an increased number of tasks, and an even greater need for raising capital. Contracting out became particularly widespread in these instances when cities needed to raise capital in order to operate local services (e.g., landfills or road maintenance), as they did not have the strength to secure long-term credit. In recent years long-term concession contracts have been granted for basic utilities including district heating. As soft budget constraints



became replaced by the reality of the market, local governments have found themselves dealing with an unfamiliar regulatory and legal framework, that of the private sphere. However, regardless of the ownership form of any particular public service, local governments are ultimately responsible for maintaining the transparency of that service provision. Moreover, local governments need to ensure performance quality and a wise use of public resources. Drafting good contracts is central to the adequate, transparent, and efficient provision of public services through private business.

The team began its technical assistance program with preliminary interviews with local government staff. This was followed by an intensive phase of gathering contracts for review, studying the civil code and other related legislative acts, and carrying out follow-up interviews with a carefully designed questionnaire.

Through these activities, the project team found that public service contracts are typically brief, and fail to describe in any adequate way the services to be provided. The contracts often do not include remedies for poor or non-performance, other than total termination of the contract. It is often not even clear what constitutes grounds for terminating the contract. In the case of long-term contracts, annual price adjustment provisions are not well crafted.

Further, the process by which contracts are drafted is not conducive to obtaining good contracts. Usually, the contracts are drafted by the company that wins the tender, without any review on behalf of the city by an attorney and/or other experts. Another common problem is that local governments take the position that the contracts are secret, thereby placing them beyond public input and scrutiny. Under these circumstances, it is impossible to know whether a particular company is following the rules of the contract, whether the winning contract adheres to the tender announcement, and/or whether the selection process was truly competitive.

It followed, then, that a list of issues that should be considered in every contract and a model contract, which addresses the issues raised above, would be essential for local governments, which either lack the know-how and expertise or may simply not realize what their contracts are missing. Above all, it became essential to introduce the concept that contracts should be carefully drafted and reviewed by experts. The cost of such a step is small compared to the benefits.

Impacts

The model contract project produced two major reports (described in more detail below), one of which was discussed at length with the Hungarian Ombudsman in charge of data protection, who subsequently wrote a "Recommendation Relating to the Publicity of Concession Contracts [November 1998]." The recommendation clarifies discrepancies in various acts of the constitution dealing with private business and freedom of information, including a clear opinion that the rights of citizens for

transparency outweigh commercial considerations to keep the contracts secret. It is widely believed that this is the first time that the issue of freedom of information will enter the arena of public debate. Only time will tell to what extent the subject is actually debated and brought to bear on legislation, but the team considers it to be a good first step toward making the process by which local governments contract out public services to private entities more transparent and accountable.

In the numerous conversations held with city officials, the “Summary of Contents of a Model US Municipal Waste Contract,” which was included in both reports, was deemed invaluable and nearly everybody remarked that they would use parts of it in their future contract dealings. Finally a Hungarian translation of the report “Contracting Out Municipal Public Services. Transparency, Procurement, and Price-Setting Issues: the Case of Hungary” was published in the leading journal on public administration affairs *Magyar Közigazgatás*.

Lessons Learned

The most basic lesson learned in the model contract project was that no set formula for the collection of necessary data and information would be possible. Essentially, one must get the information in as many ways as possible. For example, local government officials sometimes yielded less than half the information in one interview than in another. Often interviewees did not mention critical factors because they were so “obvious” or “unchangeable.” There seemed to be a capricious logic at work, which is probably due to the ambiguous nature of the laws, confused perceptions of private and public, fear of “going on record,” and so on. The lesson is simply that questions must be asked repeatedly and in various forms.

In this case, the project also demanded a Hungarian lawyer conversant with public procurement issues whose task would have been to assist the project leader in reviewing contract procedures and translating best practices from the US and other western countries into the Hungarian cultural and legal context. However, the model contract team found that these experts were few and far between. This area of law is quite specific and requires expertise in local government contracting needs and the legislative framework. Ironically, precisely because local governments do not feel proper contract drafting to be an important priority, few Hungarian lawyers have acquired this expertise.

During the project, however, a local government official became available whose main work duties are to draft contracts and provide advice to the mayor on the city’s contracting activity. This collaboration was invaluable with its input of the insider’s story and viewpoint, which to a vital extent confirmed the work already being done.



Project-Wide Measures for Institutionalization and After-Program Impact

All three technical aspects of the Six-City Project have been given broad dissemination and have already demonstrated considerable impact despite the short life of the program. In March 1999, a special *Six-City Seminar* was held, which showcased the progress made on property tax and performance measurement. The national conference *Modernizing Municipal Financial Management* also featured the work of the Six-City Project, through which it reached over 200 local government officials and staff members. The press efforts at the May event, whose spokespersons were USAID officials and the Mayors of Tatabánya and Püspökladány, focused on the value-based property tax. The message emphasized the need for local governments to “modernize the local tax system” in general, and within this framework the residential property tax was presented. As a result of the press conference, the issue landed in 10 Hungarian newspapers, weeklies, and news magazines and was featured in 3 separate radio and television programs.

A *Central-Local Forum* was founded as a series of discussions revolving around many of the critical issues that now face reform efforts in local finance. These discussions are meant to provide a valuable opportunity for mayors and central government officials to consider different perspectives on topics of concern, but especially focusing on those brought to the forefront in the Six-City Project and to jointly develop new ideas and approaches. The first meeting held on June 3, 1999, focused on the value-based property tax. Future meetings are planned that will also look at performance measurement and public procurement issues.

Numerous studies were produced during the lifetime of the project. As far as the property tax project is concerned, three reports were prepared and disseminated through the seminars and conferences mentioned above. The first report, “Selected Local Governments in Hungary. Local Revenues and Policy Implications,” analyzed the revenue structure of the six local governments of the project, as well as addressing the issues of tax administration reform. A second report, “Local Property Taxation in Hungary: Issues and Policy Options,” delves into more detail on the options facing Hungarian tax reformers from a comparative perspective. Finally, a third study, which goes to the heart of the technical assistance program, “Prospects for the Introduction of a Value-based Property Tax in Hungary,” was mailed out to 200 local governments throughout the country. This paper too has been presented to central government officials and other international donors as the culmination of the USAID portion of the SNDP work with the six cities. The findings of this paper are being directly incorporated into the policy notes being developed by the World Bank for submission to the Hungarian Government. All three papers have been submitted to the Local Government Information Network (LOGIN, a joint USAID, World Bank, and Open Society Institute venture) for inclusion in its web site and database.

The performance measurement project produced two major reports as well as numerous survey studies. "Performance Measurement: an Introduction for Hungarian Cities" provides fundamental information on performance measurement in the format of frequently asked questions and includes a glossary of basic terms and concepts. "The Customer Survey: a Tool for Performance-Oriented Management and Governance" is based on the customer survey conducted in the six cities and provides information on the types of questions asked in the survey and the different indicators that can be derived from the respondents' answers. Both papers were distributed widely among local government staff at the seminars and conferences mentioned above.

Because the project was launched so late in the life of the overall contract, the team took special measures to ensure the continuance of the work being done in this area. In addition to the publications, workshops, conference sessions, and survey results, UI-led team formed an advisory board that consists of representatives of other international donors (such as the World Bank and the British Know-How Fund), central and local government officials, representatives from the State Audit Office, and university professors. The purpose of the Advisory Group is to gather together these people to discuss the possibilities and problems that inhere in common efforts to build municipal financial management capacity and to improve service delivery. Members of the Advisory Board were also invited to participate in the national conference *Modernizing Municipal Financial Management* and in the newly established Central-Local Forum Series.

The Model Contract project produced two major reports. As a result of preliminary research (Spring 1998) and interviews conducted on the topic of contracting out public services, the paper "Contracting Out Municipal Public Services: Transparency, Procurement, and Price-setting Issues. The Case of Hungary" was prepared. This paper was disseminated at a conference sponsored by USAID, CIDA, The World Bank, and others (including UI) in July 1998 to approximately 100 participants. Based on feedback from that conference and from public administration experts and local government interviews, the paper was revised and handed out at the *Six City Seminar* (March 1999) to mayors, notaries, finance directors and other local government staff from the participating six cities. The Hungarian translation of the paper was also published in a leading public administration journal, *Magyar Közigazgatás*. As mentioned above, this paper was presented to the Ombudsman who clarified the discrepancy in the constitution between business secrets act and freedom of information and declared that the principle of publicity has priority when dealing with public finances and the state economy, which should create lasting changes in the area

A second report, which builds on the findings of the publication mentioned above, was prepared with a new audience in mind. Because the national conference *Modernizing Municipal Financial Management* was attracting mayors and other local government staff from towns that had not participated in direct USAID work the team decided to prepare a simpler version of the paper that laid out the facts, issues,



problems, and potential solutions. The paper is a handy guide for learning about the elements that ought to go into a contract, the process for formulating contracts, price adjustments, tendering procedures, and other issues. The paper was included in the conference packet.

Dissemination of technical assistance programs is aimed at spreading knowledge gained and best practices as widely as possible. Although most of the efforts in this area on the part of the Six-City Project attempted to reach additional Hungarian municipalities, some regional dissemination was also achieved. Three members of the performance measurement team were invited to participate in a World Bank and Open Society Institute-sponsored summer school course called *Intergovernmental Fiscal Relations and Local Financial Management*. The two-week intensive course brought together over 30 practitioners and public administrative professors from all over the region to discuss topical issues regarding local government and public service reform. One session was based on the experience of the six-city performance measurement project and another session, on local revenue policies, used the simulation models developed by the property tax team to demonstrate the progress being made in Hungary and how it can be adapted to other countries. The readings for these sessions were drawn from the Six-City Project's repertoire and participants were encouraged to use them in future training and work of their own.

The reach of the project has also been greatly magnified through its affiliation with the World Bank's SNDP. The case studies prepared on each of the cities in the first phase of the project were instrumental in providing raw material for the World Bank's three policy notes submitting policy recommendations to the central government, while each of the technical assistance projects contributed an in-depth understanding to some of the most key issues facing the government.

General Lessons Learned

The advantages of conducting similar work across several cities are numerous—not only from the perspective of technical assistance efforts, but for the cities themselves. Similar work being conducted across particular locales can produce differences that are important to take into account when attempting to generate replicable models for wider usage. As for benefits to the cities, the value of the survey reports of the performance measurement project illustrates the point. These highlight one city's own position in relation to others, making bad and good performance equally transparent. Cities performing better than the others in a particular service can now be looked to for guidance and/or explanation as to why this is so (it may be true, for example, that a well-performing city is spending more on that service and has opted for budget cuts in other areas). Still, better performing cities may simply be doing something different that begs to be translated into another city's context.

The comparative advantage of the Six-City Project is multi-faceted. First, experience has shown that representatives of local governments in Hungary rarely talk to one another. This is demonstrated, for example, by the myriad attempts to form associations that eventually fell flat due to various political conflicts; even the associations that do exist tend to have primarily political agendas and do not provide a forum for technical comparisons. One of the indirect consequences of the Six-City Project was that a kind of virtual association of cities was established. In other words, city officials at every level have taken advantage of the common interests the project engendered and have begun talking to one another about their experiences. Most importantly, this has taken place beyond the framework established by the seminars and conferences. For example, after learning of the progress made in Püspökladány on introducing a value based property tax project, the tax officers of Tatabánya and Szentes called their counterparts there to learn more about the assistance being provided. This was more than the team hoped for given the short life of the project, and it demonstrates the potential for the continuance of the relationships after the USAID team has exited the scene.

Reforming the Municipal Budget Process

Strategic Framework

The project carried out a municipal budget training program, which played a powerful role in Hungary's transition to a stronger democracy, and led to improved service delivery, increased municipal capacity to manage capital development, improved financial management and increased citizen awareness and participation in the budgetary process, all crucial factors in strengthening local governments. The work therefore contributed to Hungary/USAID's Strategic Objective 2.1: *Better informed citizens increase their participation at the local level.*

Implementation

An Urban Institute advisor worked with the Szolnok municipal staff to review the annual budgeting process and to develop a work plan for a budget reform program. Prior to the assistance, the budget did not emphasize line item detail with little to assure understanding of city programs or services, nor did the budget distinguish between capital and budget expenditures. There was no multi-year forecasting, cost analysis and budget monitoring or analysis. Szolnok issued a budget reflecting the reform efforts in 1996.

Because Szolnok's effort to reform their budgeting process could be a valuable demonstration to many other local governments, UI extended the project to involve other cities. A seminar on program budgeting and budget reform given in Pécs in the summer of 1995 was attended by fifteen participants representing six Hungarian cities, and all cities expressed their interest in further activities related to this subject. In 1996 and 1997, USAID inaugurated a series of seminars on budgeting and financial management for



Hungarian municipal officers. The timing and the topics covered reflected the various stages of the budgetary cycle of local governments and provided training in such areas as forecasting, capital budgeting, and performance measurement. Besides technical skills, the training also addressed issues such as working with community groups to build the political support necessary to make difficult decisions and increase citizen participation. In the final seminars, local governments presented their “new” budgets, which incorporate the new methods and approaches developed during the municipal budgeting program. Hungarian resource experts were available to local governments for consultation throughout the program.

By the end of the 1997 budget cycle, the program had developed a cadre of Hungarian experts and a group of ten local governments that had improved their budgeting procedures as a result of participating in the program. Two more seminar series were completed, bringing the total number of cities participating to thirty-five. The budget training materials have been adapted and refined based on previous experience to focus more closely on sectoral program development. The participation of fifty-two trainees from eighteen cities in the third year demonstrates the success of the project. Half of the cities sent participants for the second time, and eight of the city teams consisted of more than eight people. Many of the second and third year participants applied program budgeting techniques to different sectors of their municipal budgets. The role of experienced participants as mentors to other cities has been extremely important. Both the Ministries of Finance and of the Interior were kept informed of the project and they and other central government agencies frequently provided guest speakers for the seminars.

The course will continue to be offered in its current form over the coming years. In addition, a parallel training course for professional consultants from around the country was held to develop a cadre of experts who will be able to continue to work with Hungarian cities nationwide on strengthening financial management. Manuals containing the training course material were widely distributed. Case studies of two participant cities to assess the process and results of budget reform will be used to demonstrate to interested new cities why they might want to embark on this challenging course of action. More information about these products is included in the Institutionalization and After-Program Impact section below.

A computer model—the Local Government Budget and Creditworthiness Analysis Model—has been developed for use by city financial staff, drawing on the experience of this project, and other Urban Institute computer models developed for use in the Czech Republic and in Poland under USAID. This MS Excel based tool is discussed further below in the Institutionalization and After-Program Impact section.

UI also supported the establishment of the National Association of Municipal Financial Officers, which evolved from the networks formed through the budget seminars (see below).

Impacts

As the program had several different objectives and participating local governments were of different sizes and had different levels of activity and different motivations, program results appeared at various levels.

The most general and broadest result was the change in the spirit in which budgeting decisions are made and budgets are created. All the participants in the program mentioned this, regardless of whether a real change had taken place in the budgeting practice of their communities. Each participant learned something useful, at least in his/her own work, in the course of the program.

Looking at results by the size of communities, the best results were achieved in small communities and in municipalities with less than 100 thousand populations while large cities had the biggest difficulties with applying the techniques. Depending on the scope of the reforms, communities can be put into three categories:

- *Reforms were begun in all sectors.* Because time was short, only a few communities managed this and such an achievement is a sign of great determination and cooperation. Even these local governments continue to implement reforms.
- *Reform has been introduced in one or several sectors.* Many communities had time to apply the new techniques in only one sector. The selection was based on either personal contacts or on the type of services. For instance, many started reforms with the communal sector because this sector is much simpler, less complex than the social sector, let alone education. In some communities, the representative of the given sector was much more motivated than the financial leadership, so they started to apply what they had learned in the program by themselves.
- In the third category, communities *were not able to apply what they had learned comprehensively or systematically* but included some reform elements in their budgets, such as indicators that ensure transparency and comparability; other communities started to prepare evaluations within particular sectors (for example how much one pupil costs and what differences there are between similar institutions); in some cases the municipality simply began to make their budgets more easily comprehensible by inserting graphs and spreadsheets.

Increased Availability of Information. According to surveys of participants, one of the most important outcomes of applying the new techniques is a more transparent financial management, which promotes better service provision in general, as well as a better informed citizenry. Due to their dire financial situations, local governments must



see exactly how much each of their services cost. The traditional type of budget does not tell this, but through budget reform cities learned to break down services in the chosen sector to basis units and assign costs to them. This helps ensure that particular services are financed and not the institution “in a general way”. Developing indicators is closely related. An increasing number of communities use indicators that will help them compare per unit costs as well as trends in institutions and in time. Data collected from over a longer period (generally five years) and forecasting methods as well as monitoring debt servicing also promote transparency.

Participants also said that now their budgets are comprehensible even to laymen. According to one participant:

“Earlier the budget document said that wages and wage related payments in the Mayor’s Office cost HUF 68 million or 300 million. And everyone just thought that all that money was taken by the staff. They have those high salaries. In the current budget, this total is broken down [by program]. . . . And then the whole thing is perceived in a different way, everyone can see that [the items funded are] very diverse.”

It is interesting to note, however, one interviewee’s comments. “A more transparent budgeting process may violate interests”, especially in institutions. In the course of reform, this can be a serious difficulty.

“The internal life of institutions has become visible. It might not be in the interest of everyone. In discussions, ‘how did you do it, why, who allowed it’ type of issues were raised; nevertheless, it is obvious that an absolutely clear system has been created.”

The concept of being accountable to the public is a very new idea for many municipal agencies.

Interviewees said that current budgets are more colorful, contain plenty of information and are more than a financial plan, but rather tell the reader what the local government is doing. And there is cause to celebrate when this objective is reached:

“Not long ago, I met a colleague from Debrecen for the first time, who had never been to Sz. I gave him a municipal budget and while on the train from Budapest to Sz., he was given a full picture of our local government. In the budget one can see the growth of the population since 1993, its mix, what the infrastructure is like, what contacts the local government has, what the system of institutions is like and what each of the institutions do. This budget provides a lot of information to investors or visitors. I’m really proud of it.”

Better Management Skills. Many participants said that the most important effect of seminars was to teach them to think systematically. Several reported that they can better think in terms of processes and plan in perspective and that they had learned how to reach goals in small steps. The seminar highlighted how to take a global and comprehensive approach and to see a broader scope of interrelations.

In the training course it was soon obvious that real results can be achieved only through the cooperation of departments and groups. At places where real results were achieved, cooperations strengthened as well as sympathy and respect for each other. As one participant put it:

“What I feel is that earlier no one remembered what happened at a City Council meeting, now colleagues listen in excitement together. Recently cooperation has strengthened and we much more respect each other’s work. We have a much better understanding of each other’s thoughts and troubles and of course common interests.”

The common comprehensibility of local government financial management, together with the transparency of its main document, has changed decision-making mechanisms. The majority of City Council members are not qualified financial professionals and the City Council is elected every four years and thus those in decision-making positions keep changing. Formerly, when City Council members did not understand what the figures meant, they would concentrate on the political plane and arguments were subjective. With reform budget providing more information to politicians, objective decision making became possible. The most important impacts of the reform of decision making are the following:

The quality of the decision making process has clearly improved. The majority of participants said that a more detailed budget and more thoroughly broken down items help to make decisions more objectives than those made when only global budget items were voted on. An important achievement is that decision-making includes professional arguments and questions are more targeted and to the point. A general opinion of local governments that have implemented reforms is that the whole planning process has become more civilized, comprehensive, detailed and thorough.

Decision making was also improved in that the new analysis often provided data that helped prevent the council from making decisions with a long-term negative effect, such as approval of a new retirement home when several under-utilized homes already existed in the city.

In addition, decision making became more efficient. Before the budget draft is submitted to the City Council, department heads, institutions and committees meet several times. With more accurate figures on hand, these meetings have become simpler. A detailed presentation of services, legal requirements and scopes of services



eliminate the need to ask a large number of questions. Not only have coordination meetings become shorter, but budget discussions by the City Council as well have reached a record in terms of brevity because the budget document itself provides the information that forestalls questions that previously had to be asked in the meeting.

Improved Distribution of Resources. In addition, the process results in a more rational distribution of resources. In the Hungarian local government practice the “lawn mower” method of financing deficits is widespread. This means that if in the first draft of the budget, expenditures are 5 to 10 percent higher than revenues, many local government simply give 5 to 10 percent less to each department. In communities, however, where costs are known by service, it can be shown what negative impacts (lower quality) will result if revenues are reduced by a certain percentage. A concrete illustration is the community where revenues for kindergartens could be maintained by reducing street sweeping from 5 times a week to 3 times.

A Fundamental Change in Attitudes toward Involving Citizens. At the end of the second year of the program, a participant survey showed that involving citizen (citizen participation) in the local budget was a low priority. Knowing this, it is a great achievement that in a 1999 survey every respondent regarded informing citizens, collecting their opinions and integrating citizen opinions into the budget as very important. Although citizens generally continue to not actively show interest in municipal affairs, at least local governments have started to change attitudes and to recognize that making the budget open and citizens informed is essential. Here are some of the answers to the question, why it is important to make the budget known to citizens:

- Citizens should know what the city spends their money on.
- The whole thing is for their benefit.
- It is important, because then they will be able to realistically see the situation of the local government and efforts made.
- Citizens should see whether their needs are met as they expected when they made a political decision.
- The budget shows what improvements are given priority and what not and why.

Progress has been made in increasing the accessibility of the budget document. Somewhat slowly, the old instinct that the budget is a confidential document has died. Most local governments publish a shortened version in the local newspaper, and everyone can obtain it through City Council members, or can read it in the Mayor’s Office or in the city library. Where there is a local TV station, the budget adoption

session is broadcast. Although it is not a widespread practice, some communities mail a shortened version to everyone.

Views on feedback from citizens vary but the general opinion is that people are passive or negative towards communication. Many say that citizens do complain (for example about paving roads, income supplement benefits, or welfare payments) and rarely give positive feedback.

Generally speaking, the use of local taxes is interesting to people. In the past few years' local taxes have grown and new kinds of taxes have been introduced; therefore, people are more interested in how the local government spends that money. A finance department head summarized his experience:

"Here it works differently than in more developed democracies where citizens feel that the affairs of their city belong to them. It is only now, introducing a new type of local tax, that people want to know what happens to their taxes paid."

On this topic it is perhaps worth mentioning again that a measure like the citizen information brochure described above in the tax project seems to be widely applicable.

In communities where new techniques were successfully introduced, not only citizens but investors, businesses and the media became more interested in the municipal financial management. One training participant describes a meeting between the city's mayor and the business community:

"For a businessman efficiency means something different than in the sphere of public services, but the minute they saw numbers, data, information, analysis and background, they understood our problems."

Lessons Learned

A number of important lessons were learned, both about training in general, and about issues specific to financial management training.

Marketing the Program. Although the program was advertised through several channels (including the mass media and the Local Government Bulletin of the Ministry of Interior), by far the most effective way of recruiting participants was by direct mail to mayors and notaries. From a marketing point of view, an equally important factor was that after the first year, the seminar became known by word of mouth: those who had found the new techniques useful started to apply them and told colleagues in neighboring communities, encouraging them to participate. Budget documents from Szentes, Püspökladány and Szolnok were convincing enough as early as after the first year to encourage other local governments to try for themselves. This experience



indicates that personal endorsement and proven products are the most efficient ways of marketing something that requires a heavy commitment of time and indeed of personal prestige.

Program Structure. Because the program implied deep commitment from participants and their municipalities, attitudinal changes were necessary that could be achieved only through a series of regular meetings and seminars, rather than through a one-off contact. A structure was designed in which participants met six times a year, each time for a one or two day seminar. Seminars and the topics discussed at each of the occasions matched the real budget cycle (i.e. the early summer seminar focused on the work plan, the December one on the preparation of a budget policy etc.). There were no seminars in the summer months and in the period from January to March to fit the participants' schedules: holidays and an extra load of work in the final stages of the budget preparation and adoption. It is believed that this technique of repeated contacts with participants did increase the impact and depth of the changes sought to be initiated through the seminar series. Scheduling the seminars around the participants' actual work schedules enabled the theoretical to be quickly converted into the practical. Additionally, the participants were able to build professional relationships because they encountered each other frequently; these relationships were eventually formalized in the association of finance officers, discussed below, which serves as an institutionalization device for the project.

Successful Participants. The local governments that continued their participation over several years made the greatest progress towards applying elements of program budgeting. By year three of the program, they had adopted the method to several sectors (Szentes and Szolnok to the whole budget). Also, these local governments did the most to recruit new participants and to help them by sharing their insights and experiences.

Experience shows that the most successful municipalities had someone in a "powerful" decision making position (for instance the chief finance officer) participating in the training. For example, the participant from Székesfehérvár was one of the most active, yet she could not achieve results because the head of her department was not committed to changes.

Sectoral Focus

The program was unusual in that sectoral personnel as well as financial management personnel participated in the training program. It became clear at the end of the first year that the most successful participating cities included both because of the importance of understanding the true costs of different services in decision making; and the sectoral participants had access to the additional information required to conduct an adequate analysis. So in subsequent years their attendance was encouraged, and the program was restructured by considering certain topics, such as performance

measurement or sector strategy, sector by sector. In addition, working together in the seminars enhanced cooperation between financial and sector people. This structure greatly strengthened the program.

Small Group Exercises. An important feature of the program was small group exercises. Small groups were asked to cope with a case related to the current topic. Case studies were based on information on and issues for a fictive city. In a few cases, groups were asked to fill out questionnaires (e.g., strategic goals or program objectives) or to “experiment” with a computerized model. The exercises did receive some criticisms:

- The case is too American and not realistic; despite efforts to make the cases more Hungarian, the prejudice was so strong that the same criticism was made when a Hungarian city was used as the model.
- “Now I can tell what I want”: some participants felt that this was the occasion to present the problems of their municipalities at length and only experienced facilitators could prevent other participants from feeling excluded from the discussion.
- The information provided was too little or not realistic. The organizers attempted to improve the cases based on this criticism. Although no case can provide as much information as in a budget, the problems were made more clear and unambiguous.

It appears these perceived problems have a common root: the limited ability (or willingness) of participants to think abstractly. Very few were able to disregard their own communities and think about the exercise as a model (which is a simplification of a problem). Often the participants went into too much detail and did not concentrate on the exercise. That was the point at which facilitators became very important. This was a very new kind of challenge for them, and they often found it more difficult than giving presentations. However, over time they acquired the skills to run work groups efficiently. This experience suggests that although small group exercises can be valuable, the facilitators must keep a tight control over the process. Thus, inexperienced facilitators may find it useful to receive training on small group techniques at the onset of a training cycle. It may also be helpful to provide participants with a general orientation on effective discussion participation early in the process.

Guest Speakers. Occasional seminars included a guest speaker from one of the central governmental organizations. This enabled participants to make direct contact with central government officials, while involving guest speakers meant that they were kept aware of the existence and content of the program. If feasible, then, involving other governmental branches will both enrich such programs and deepen their impacts.



Trainers and Experts. One objective was to root the program firmly in the Hungarian environment so that the process of innovation itself would continue beyond the life of USAID. To that end, Hungarian professionals were involved in the development and training from the very beginning. This Hungarian contribution included the staff of the Metropolitan Research Institute, a group of independent consultants with special expertise (for example a banker and an advisor to the city of Budapest) and local government practitioners. Towards the end of the program a fourth group was added, as consultants from the around the country were recruited and trained, to form a cadre of advisors to local governments seeking ongoing assistance in budget reform.

The program was designed by Hungarian and American experts, and in the first year the various fields were divided between them. In the second and particularly in the third year, several presentations were given jointly and some of the topics were taken over entirely by the Hungarian staff. The key role of the American partners was to present the new spirit of reform, to introduce new concepts and to provide already developed materials such as case studies, exercises and work sheets (primarily in the first two years). As the program became Hungarianized and adapted to the local environment (with local trainers playing an important role), the proportion of American contribution decreased. This experience exemplifies how a long term training program can take maximum advantage of American experience while deepening the knowledge of Hungarian trainers and increasing the relevance of the materials to the Hungarian experience.

Involving active municipal staff as trainers and facilitators proved to be an excellent idea. Through training-the-trainer programs and mentoring, they gained the necessary tools to enable them to share their experience and knowledge not only during the program itself but also over the long term. Simultaneously, they could not only help adapt the materials, but also popularize concepts and techniques by testifying to their usefulness and relevance.

Use of Hungarian Examples. In the first year it became clear that presentations or case studies based on US practice, however interesting and useful they were, were often met with opposition and the audience distanced themselves from what they had heard and did not believe in the potential of adapting it in Hungary. The most popular part of the seminars was always the presentation of how a certain technique could be put into use at a specific municipality. Participants could feel that those things could be implemented, and it was worth implementing them. By the third year theory was illustrated with Hungarian examples. This greatly helped to fill concepts, too abstract and sometimes apparently impracticable, with content and to show how to put them into practice. This “Hungarianization” of the materials, although a lengthy process, was an essential part of the success of the program.

Measures for Institutionalization and After-Program Impact

Three tracks of municipal budgeting activities were developed to ensure sustainability of the program. The first was the training component, which consisted of the current Modernizing Financial Management of Hungarian Local Governments program. However, for the third and final year, organizers introduced a new dimension to the program – the Municipal Financial Training Consultant Program – which was designed to train a group of consultants to assist municipalities in developing the necessary technical skills to manage, track, and allocate their resources. The consulting program's objective was to identify, select, and train entrepreneurial professionals who were living outside of Budapest and interested in building a local government consulting career. Over a nine-month period, the consultants were trained to provide quality consulting services to Hungarian municipal governments and promote municipal budget reform in Hungary. The training program consisted of specialized training courses that taught western style marketing and consulting techniques, complemented by the Modernizing Financial Management seminar series, which focused on developing technical municipal financial management skills.

The consultant training program already shows measurable results:

- One of the participants has already set up her financial consultancy service, and has conducted market research and has collected some clients.
- Another participant is providing consultancy services to local governments. He helped local governments introduce TQM, a customer oriented service, and had some experience in setting up measurable objectives.
- Participants agreed that after the course they will be in touch with each other and will inform others about the latest events. They also agreed that if they need other consultants in a project, they will attempt to involve each other in the project.

The second track focused on assisting the development of the municipal finance industry. Prior to close-out, USAID sponsored the majority of the costs of the municipal budgeting seminars. To determine whether providing similar seminars would be feasible without USAID financing in the future, UI joined with the Advocate Project to perform an environmental scan of the municipal finance industry to identify the current players and measure the demand for municipal budget reform seminars and activities. It was clear that municipalities were willing to pay for the subsidized seminars and consulting services, but unclear whether they would be willing to pay for the same services at market rates. The scan examined whether there were other players who might be interested in the USAID information, materials, and training such as banks, municipal associations, management consulting firms, and universities. Systematically, meetings



were held with interested partners to identify outreach opportunities and strategic partnerships.

In addition, UI supported the establishment of the Municipal Association of Finance Officers (discussed below) and continued its efforts to mentor the Hungarian research institute, Metropolitan Research Institute. Its primary objective was to support institutional development to ensure the sustainable continuation of USAID efforts in municipal financial management training. These organizations are expected to continue efforts to increase professional management capacity and foster the continued evolution of the municipal finance industry.

The objective of the third track was to identify and develop budgeting materials that could be used by professionals, institutions, and associations to continue municipal budget reform in Hungary. Based on over six years of municipal budgeting experience in Hungary, two case studies, five manuals, and one computer software model were developed. The materials were designed to be training tools that could supplement seminars or be given to clients as a part of a consulting package. The products do not replace the benefits of individual instruction, but can generate interest in learning additional information or possible future attendance at specialized training seminars. At a minimum, the products ensure continued returns of USAID's investment in the transfer of modern budgetary techniques.

The case studies were based on success stories of Szolnok and Szentes, the pioneers of municipal budget reform that had been with the program for the longest period of time, demonstrated the necessary level of commitment of resources, and were the first to experience positive results of their efforts. The intent was to capture and document the long-term process of reform so that the experiences and lessons learned would serve as a model and motivator for other cities contemplating municipal budget reform. The Szentes Case Study was published and widely disseminated throughout Hungary. Many of the examples found in the case study were used in the second and third year of the Modernizing Financial Management Seminar Program. It was observed that many Hungarian municipalities became more receptive to the new municipal techniques when they could learn how they were adapted and used firsthand in the Hungarian context, so this technique should increase after-program impact.

Five manuals were prepared on Program Budgeting, Financial Analysis, Revenue Alternatives, Capital Improvement Planning, and Performance Measurement. The series was designed to demonstrate relationships among subject areas and establish cross-cutting linkages with other manuals. Each manual has two sections – a Practical and a Training Guide. The Practical Guide was intended for self-instruction, but could also be used as a basis to develop presentations on the topics. Throughout the Practical Guide, there are icons in the left-hand margin indicating corresponding slides in the second part of the training manual, the Training Guide. The Training Guide can be used by professionals to initiate municipal budget reform or by trainers in a

workshop for financial managers or different local governments. The Training Guide includes a training agenda, slides, exercises (where applicable), and a bibliography. The slides can be used in their current form or enhanced or changed based on the needs of the particular training situation. Most of the materials were developed during the three-year training program, reflecting both expert input and feedback from Hungarian participants, and the simple fact of what works.

A description of each individual manual follows:

Program Budgeting. This manual is designed for individuals who are directly involved in preparing the municipal operating budget, including finance department staff program and those who prepare budget requests on behalf of municipal departments within the mayor's office and budgetary institutions. It examines the program budgeting process by exploring why municipalities have a budget, reviewing the types of budgets municipal governments utilize, and defining a program budget and its advantages.

Financial Analysis. This manual helps municipal officials to gain an understanding of the municipality's fiscal situation and identify emerging trends of which they may be unaware, by presenting the tools and techniques used by municipalities to perform financial analysis. It consists of three modules that complement and build on each other. The first module presents a structure for grouping and analyzing budget data. The second module presents fiscal indicators, which are tools for evaluating the fiscal condition of a community. The third module presents techniques for forecasting municipal revenues and expenditures.

Revenue Alternatives. This manual explains the different types of alternative revenues and discusses how to evaluate and reform a local government tax system including a discussion of the steps necessary to introducing a value-based property tax.

Capital Improvement Planning. This manual focuses on practices and techniques for developing a capital improvements program (CIP), a multi-year planning instrument to identify needed capital projects and to coordinate the financing and timing of improvements in a way that maximizes the benefits to the citizens. It examines the capital budget process from selecting, timing, and financing capital projects through the production and presentation of the CIP. This training manual is designed for individuals who are directly involved in the capital budgeting process, including finance department staff and those involved in communal services, or other areas that require major capital improvements. Those involved in urban planning, economic development, and other related disciplines also will benefit.

Performance Measurement. This manual is designed for managers who are involved in providing services to the public, including government officials (local or central), agency heads, and managers of private or nongovernmental organizations. It will help program managers develop high quality performance measurement systems or



improve the ones already in place in order to identify ways to improve the quality and cost-effectiveness of service delivery. The manual focuses on the step-by-step development of a performance measurement system. It covers the identification of program goals and objectives; selection of performance indicators; data collection procedures; analysis and reporting of the information; and using performance indicators.

The Local Government Budget and Creditworthiness Analysis Model is a financial analysis software model that assists municipalities in making budget forecasts, analyzing trends, evaluating the municipality's fiscal condition, determining available funds for capital investment, and assessing creditworthiness. Another potential market for the software product may be bankers or credit rating institutions who either assess creditworthiness or issue municipal credit. The model utilizes the experiences gained with similar models developed in the Czech Republic and Poland by UI under USAID programs and the knowledge accumulated during the past few years through the Hungary USAID municipal budgeting program. The model is composed of five basic units: one is for the input of data from the current budgetary report and of those of the last five years; two is for preparation of the budgetary forecast; three is for preparation of the scenarios for the future; four is risk analysis, and, finally, five is for calculation of creditworthiness. These are supplemented by four figures describing the key budgetary indicators on the basis of the three scenarios. A short brochure accompanies the software package, which was designed primarily to assist with the use of the model.

The case studies and software package were presented at the *Modernizing Municipal Financial Management* conference in May 1999, which had over two hundred financial officers in attendance. The five-piece manual series has been mailed to 200 of the largest cities in Hungary. In addition, a cover letter and publications list of all the products was mailed to the original conference invitation list, which totals over 900 individuals, inviting them to complete a form and mail in the required amount of money in order to receive the desired products.

Association of Municipal Finance Officers

Strategic Framework

This project included work to support the establishment of an association of municipal financial officers in Hungary and assure the establishment of an effective, independent, self-financing association. This was one of the tasks under the life-of-project work plan for improving municipal service delivery, which contributes to Hungary/USAID's Strategic Objective 2.1: *better informed citizens increase their participation at the local level.*

Implementation

Based on an informal network of municipal finance officers that evolved as part of the training activity in municipal budget reform, efforts were made to stimulate the development of a national association of municipal finance officers. A working group was formed which held a series of meetings in late 1997 and early 1998 to discuss draft by-laws and business plans. These sessions culminated in a founding meeting of the association and election of officers in March 1998. In June, key members of the association participated in a USAID-sponsored study tour to the U.S. to learn more about association management, training functions, and municipal financial management. UI worked closely with the association on developing a business plan which focuses on membership services and recruitment. A membership recruitment drive was a major Association activity for 1998, including a wide-reaching mailing and special meetings for interested cities. In addition, the Association received office equipment, including a laptop computer that can be loaned to cities working on specific analytical projects (such as simulations for a proposed tax) who do not otherwise have access to sufficiently powerful equipment.

Impacts

A needed and sustainable association, dedicated to improving the professional qualifications of municipal finance officers in Hungary, was established and will continue to exist. It already has more than fifty members, and applications continue to pour in following the recent membership recruitment campaign. It seems clear the association would never have developed without the assistance of UI. Through the assistance, the association received valuable information about association issues and training that will help it further develop. In a way, professionally they could see where the "developed world stands".

The study tour to the United States developed cohesion among the group and provided them with new ideas and motivation.

Lessons Learned

Many of the problems discussed above regarding the formation of new associations plagued this project as well. In some fundamental ways the objectives and principles of the association leadership differed from those of USAID. The tendency to want to remain more of an elite club rather than a wide-reaching association was present, for example, so that the request to emphasize membership recruitment was neglected and postponed – despite the fact that one of the main problems cited by association leadership was the difficulty of having such a small number of people available to carry out tasks. However, when the recruitment campaign finally did happen, association leadership embraced it with enthusiasm, with the result of large numbers of new members and a changing vision of the future. Another problem



stemmed from chronic misunderstandings. Often USAID requests and procedures were not clearly understood and had to be repeated frequently; further, requests were often understood as a kind of intervention in their internal affairs. (They never thought that it was useful to prepare a Business Plan, for example.)

Again, lessons include the need to be clear and specific in communications and in objectives. Also, an emphasis on membership recruitment to broaden both the resource pool and the Association's vision, would probably be helpful earlier in such projects.

The Advocate Project

Strategic Framework

This project covered work to improve and disseminate products produced through the implementing partners of the Democratic Governance/Local Government Strategic Objective Team by making available the best practice information of the implementing partners on a broad scale after revising products for more general audiences. This was one of the tasks under the life-of-project work plan for improving access to information and municipal service delivery, which contributes to Hungary/USAID's Strategic Objective 2.1: *better informed citizens increase their participation at the local level.*

Implementation

In order to formalize and strengthen the expansion of USAID's municipal programs in Hungary, the Advocate Project was established in mid-1996 with the objectives of developing a strong outreach capacity that will make local government and democratic governance innovations available to communities nationwide, and of empowering Hungarian associations and other institutions to develop the capacity to continue the outreach function. The Advocate worked on improving for a wider audience and disseminating a number of innovations originating with USAID implementing partners, including an update of Local Economic Development handbooks produced by the Department of Labor Rapid Response project, production and wide distribution of a video on "Telecottages" – community centers to provide facilities for small entrepreneurs in villages all over Hungary –, a report on municipal treasury best practices, and the production and dissemination of the Local Government Budget Analysis and Creditworthiness Model. The Advocate also had an extensive media outreach function, including distribution of a Local Media survey detailing press coverage of innovative practices in local governments, and publication of a monthly supplement to *Autonomia*, a magazine focused on local government practices. A detailed, separate close-out report discussing impacts and lessons learned was prepared; the following summarizes its findings.

Impacts

The impact of the Advocate can be summed up on an initial level by listing the number of persons, organizations, cities and villages touched by the Advocate's activities. The statistics are indeed impressive. Over 25,000 items, consisting of deliverables from several implementing partners, ultimately reached over 6,000 addresses in over 1,000 localities in Hungary. In addition, a video produced by the Advocate was shown in its entirety twice on national satellite television, and by at least 60 local cable operators throughout the country. Three thousand copies of a computer model for predicting municipal creditworthiness are in the hands of experts as a result of the Advocate's activities.

More importantly, the products themselves did indeed have a strong impact on their target audiences, as discussed in the following analysis of some of the products the Advocate worked with.

"Our Telecottage" Film. The Advocate proposed and produced a 30 minute documentary, "Our Telecottage" which presents an overall picture of Hungary's telecottage movement and its role in combating rural out-migration, unemployment, and social alienation by providing similar opportunities for villagers that city-dwellers take for granted. The film, which was distributed in 2,500 copies along with an accompanying brochure, helped the Hungarian telecottage movement triple in size in less than a year. It was ordered by more than half (51 percent) of the winners of the first all-Hungarian funded telecottage competition in September 1998. The rest of the 92 winners were located in the direct vicinity of existing telecottages so it can be assumed that nearly all winning proposals were submitted by those who have either received or seen the film, since existing telecottages made an effort to show it in surrounding villages and community groups. In an unscientific poll conducted in October 1998, half of the *respondents* contacted (about 200 of 2,500 orders) indicated that they already were establishing, or were planning to establish, a telecottage. As a professional recognition, "Our Telecottage" received an award at the International "Prince Award" Festival held in November 1998, in Szeged, Hungary, as it made it to the last round of selection (best 5 films) and was nominated for the top prize.

Local Government Budget and Creditworthiness Analysis Model (UI-MRI). The Advocate worked together with UI to modify and market a municipal financial assessment model developed by UI in its previous work in Poland and the Czech Republic under USAID projects. The Advocate printed 3,000 copies of the computer disk and handbook, wrapped the entire package in plastic wrap, and placed it in a custom envelope. Besides distribution at the *Municipal Financial Management Modernization* conference in early May 1999, the Advocate used its usual channels to obtain nearly 1,200 telephone orders for 1,400 copies. The rest were distributed to Hungarian partner organizations who requested multiple copies, including nearly 500 copies to the telecottages active in 100 communities and their environs, and the rest to regional



conferences and organizations who have their own constituencies. Because of the recent distribution date (mid to late May 1999), it is difficult to clearly assess impact at the time of preparation of the report. Several early comments on the model included the observation that it was most useful for mid-size and larger cities, banks, and consultants, rather than for smaller communities who may not have the time to use the model to its fullest capabilities, and do not anticipate discretionary revenues or free cash as ever being available for borrowing purposes. As of mid-June 1999, MRI continued to receive inquiries and requests for more copies of the software and for technical assistance. It is anticipated that upgrades of the software will be prepared, including an English version for regional use.

NGO-Local Government Cooperation: a Handbook (Demnet). The Advocate worked with Demnet to develop and gather recommendations aimed at furthering local government and NGO cooperation and out-sourcing of governmental functions, which were ultimately collected in a handbook. The Advocate added value and impact by reprinting the book twice and eventually distributing 4,500 copies nationwide between October 1, 1998 and June 1, 1999. The Advocate interviewed about 50 recipients of the book (a 4 percent sample) out of the 1,247 customers who ordered the book directly from the toll free number. Although the results are largely anecdotal, the early results are encouraging. Of the 50 respondents, 36 (72 percent) had read or skimmed the book. Of those, 33 found it be useful (in other words, 91 percent of those who read it found it to be useful), and a source of information that cannot be found elsewhere. "There is no other book like it out there," said one reader. Overall, of those who have used the book, a majority indicated that from an NGO perspective they found it to be useful in preparing grant applications and in starting negotiations with local governments. The local government side remarked that the book was useful in setting standards and conditions for announcing and running competitions for outsourcing vendors, or, in some cases, the handbook was used to write "NGO policy" manuals and ordinances.

*Regional Development Initiatives: an Interactive Handbook (DOL).*⁵ The Advocate assisted with the development of handbooks for the US Department of Labor (DOL) Rapid Response local economic development (LED) project. Under the LED model, county labor centers help to set up local teams that then participate in a series of four workshops designed to help the members craft a local development plan and generate ideas for specific projects. By the end of the workshops, the local actors have developed a basic strategic plan for the area and identified concrete projects for implementation. In the project's second phase, the local area implements one or more projects.

The Advocate proposed that the otherwise successful handbooks be thoroughly tested, rewritten, and re-tested by a team of Hungarian employment experts, and

⁵ The following is based on information provided by the US Department of Labor.

helped carry out the work. Since a variety of Hungarian ministries, government foundations, county-level employment, and development offices have incorporated the Rapid Response model into their standard practices, all copies of the handbook were distributed by the DOL office. The revised books were tested in 17 areas representing over 200 municipalities under the second round of pilot sites of the DOL project. Since completing the workshops, these 17 areas have begun implementing a total of 19 projects with some US support (\$5,000 each). Statistics are being compiled currently on the number of jobs created and other pertinent indicators. Based on preliminary data from the 14 areas responding, the areas have leveraged the US support of roughly 15 million forints to attract roughly 36 million forints from other sources in the first 4 months of their work. However, it should be noted that the impact of the book could best be measured in the results of the projects which will be undertaken by the local areas in the next year.

Lessons Learned

The Advocate's primary mission was to take products developed by an implementing partner, and distribute them beyond the few clients targeted by the original project, in a form appropriate for the many potential clients throughout Hungary. This effort was in general successful, although at times the effort was hampered by partner cooperation concerns.

For a variety of reasons, some implementing partners did not make their products available during the development stage, so that the Advocate could participate in making those products more "disseminate-able" as they were being prepared. To some extent, "turf" issues may have caused implementing partner reluctance to make the product available during the development stage. Such hesitation to cooperate could have been mitigated had each implementing partner's contract clearly specified the need to incorporate sustainability as a fundamental part of the program, and required that the partner work with the Advocate to the extent that would have facilitated the development of legacy devices. An additional solution might have been to establish the Advocate function within an existing implementing partner, rather than carrying it out through a separate corporate identity, in order to diminish the sense that an independent outside actor was in some way sharing ownership of the final product. It is also important that USAID take a leading role in encouraging a true partnership among the implementing partners, and in making clear that effective sustainability plans must start early in the process and not be left as a final act at the end of the budgeted time. Third, ownership issues can be better dealt with through a clear division of roles as the Advocate initiates and carries out an operating relationship with the implementing partner. It also bears noting that the personnel of the Advocate must operate with curiosity, tact, and adaptability, ready to provide any of a variety of services based on what would best serve the particular implementing partner.



Thus experience makes clear that the nature of the implementing partners is truly determinative of the Advocate's role on a case-by-case basis. The Advocate must remain very flexible, offering a different mix of packaging, content, distribution, dissemination, and information to each implementing partner, depending on their requirements, willingness to cooperate, and the ultimate needs of both USAID and the host country clients.

Whatever the Advocate's involvement in development of deliverables, launching a specialized distribution function in a separate project rather than having each implementing partner carry out its own dissemination independently definitely produced positive results. Multiple distribution efforts produced a tested mailing list, allowing the Advocate to greatly increase the breadth of distribution of some products. In addition, its experience with the various channels available often made production and distribution more efficient and economical.

It is difficult to make a definitive statement as to whether the Advocate functions should be conducted by a separate contractor as in the present model (or perhaps as an additional function of a single implementing partner), or carried out by the original contractors themselves. In some cases, an in-house dissemination and marketing effort may be more efficient, if the contractor has funds, time, and personnel available as the deliverable is completed and ready for distribution. It bears repeating, however, that the Advocate did not act as a mere clearing house for implementing partner products. It is clear that Advocate, as an interested outsider, added an extra creative spark concentrated on creating and meeting demand for implementing partners' products, which resulted in the product of several fine products that would not otherwise have existed.

Measures for Institutionalization and After-Program Impact

The Advocate's data bases of customers have been provided to a number of continuing institutions, including MRI, enabling those institutions ready access to organizations and individuals already interested in local government issues. Further, all the products improved and disseminated by the Advocate will continue to spread the word about best practices and innovative ideas in this area.

New Partnership of Local Government Associations

Strategic Framework

This project worked to support the establishment of the new Partnership of Local Government Associations in Hungary as an effective, independent, self-sustaining association, in order to provide an effective mechanism to speak with a unified voice for Hungarian local government. This was one of the tasks under the life-of-project work plan to enhance opportunities for local government associations to be active partners in

improving the democratic decentralization efforts of the national government, and contributed to USAID's Strategic Objective 2.1: *better informed citizens increase their participation at the local level.*

Implementation

Work was done by the International City Managers Association (ICMA), another USAID implementing partner, to develop a more viable Council of Local Government Associations (CLGA), as an umbrella association of local government associations. About the time ICMA closed out its operations in Hungary, it was determined that CLGA would dissolve, but certain of its members voted to form a new association, the Partnership of Local Government Associations (the Partnership). To facilitate the formation of the Partnership, starting in October 1998 an Urban Institute consultant continued the work she had begun on behalf of CLGA as an ICMA consultant. Tasks included work with the acting executive director of the former CGLA, the political leadership, and executive staff of the national local government associations, who are potential members of the Partnership to explore the possibility of building a new partnership of associations; preparing a critical analysis of USAID support of municipal association building activities in Hungary; and coordinating donor efforts and plans in order to strengthen future activities in the association building arena beyond USAID's tenure in Hungary.

Impacts

The work done under the sponsorship of UI has helped the Partnership apply the lessons learned from CGLA to the new association, establish relationships with the international donor community, and apply for membership in international and European associations. However, progress was slow, in part because of the local government elections in late 1998 brought changes to the leadership of some of the constituent associations. But the delay may be also an indication that the members are not making association development a priority. It should be noted that at every discussion member representatives reiterate that they see the Partnership as the last opportunity to show that cooperation among municipal associations in Hungary is possible.

Lessons Learned

This project was an extremely ambitious undertaking fraught with difficulties from the beginning given the political nature of the seven existing associations and their different profiles and objectives. While the portion of this project carried out by UI was only a few months at the end of the project, many lessons specific to association development were learned throughout the whole effort, largely through the work carried out by ICMA under a different contract, and are worth noting:

- Given the difficulty of the task, it might have made sense to have a smaller commitment to the CGLA, both in terms of funds and resources and in terms of



the centrality of this project to the overall Public Administration Project. (Other donors, for instance, focused their assistance on specific tasks, enabling them to link funds to concrete accomplishments.)

- It is important to involve as many “shareholders” (i.e., member associations) as possible from the very beginning – actually the same conclusion drawn with other associations, that greater membership contact from earlier in the project can be beneficial. In the case of CLGA, it might have been helpful to have established a formal relationship between the donor and the individual member associations in order to spread responsibility and increase ownership.
- There could have been more preliminary discussion with all the players before committing to implement particular projects. These efforts would have increased member buy-in, persuaded members of necessary steps (e.g., increasing staff capacity), and given USAID more input regarding options and techniques for implementation.
- Assigning individual project managers from within the organization would have helped circumvent the bottleneck effect of a less-than-enthusiastic executive director, who stalled several projects.
- Before a donor organization transfers funds directly to the assisted organization, the financial management system should be audited – and improved – to ensure that the funds are used for their original purpose.
- Personal conflict management training would have been beneficial much earlier in the project. It showed positive results when given, as a new structure for the association was finally formed, but might have been able to forestall many of the earlier difficulties.
- It cannot be overemphasized that the schedule set for a technical assistance project will often not coincide with the timing that is desired by the recipients – or even possible, given their own schedules and milestones. The donor must be flexible in adjusting to the realities.
- A strategy for institutionalization has to be designed and put in place near the start of the project, not toward the end. For example, giving the recipient staff time and means to develop skills such as management and fundraising would require training near the start of the project and then systematic reinforcement throughout the process.
- Tangible interim goals are beneficial and motivational. Setting goals early in the project for specific discrete projects can result in success that can help move the project forward. For instance, in the case of CLGA, small successful projects

helped shift people's focus about the CLGA being only a platform for political fights and personal disputes.

During the final stage of this project, there were two primary lessons. It was helpful to use the same consultant to continue the technical assistance, as continuity of personnel is important to avoid start-up delays and to take advantage of good personal and working relationships already established. In addition, USAID's initiative to improve donor coordination was extremely beneficial, and would have been useful early in the project.

Measures for Institutionalization and After-Program Impact

The Partnership is expected to survive in its current formulation, as the members are committed to further cooperation. Other donors will also continue to provide limited support for discrete tasks undertaken by the Partnership.

Solid Waste Management Project, Hajdu-Bihar County

Strategic Framework

This project supported a recently established Association in financing the development of a solid waste landfill by preparing a financing structure and obtaining the loans and grants necessary for the construction of the Bihar Region Landfill, which will serve as a successful model of inter-local cooperation. The overall aim of the project was to develop a model of inter-local cooperation that could serve the needs of infrastructural development projects in the future. This is one of the tasks under the life-of-project work plan for improving municipal service delivery, which contributes to Hungary/USAID's Strategic Objective 2.1: *better informed citizens increase their participation at the local level.*

Implementation

This project was the continuation of one begun by implementing partner ICMA. UI worked with the Bihar Region Solid Waste Management Association on finalizing three financing scenarios (optimistic, realistic, and pessimistic scenarios), which are the preconditions for submitting a feasibility study to the Regional Development Council, the first step in the application process for the central government's targeted grants. In addition, UI collaborated with Hungarian consultants, both technical experts and local government finance specialists, on assisting the members of the Association convince their respective constituents of the soundness and importance of the inter-municipal project. Finally, a policy note was prepared with the assistance of members of the Association that included recommendations for actions to be taken by the central government or other actors to facilitate the establishment and operation of other such regional associations.



Impacts

Two areas of background information are necessary to adequately assess the impact of the Bihar Solid Waste Association project. The first deals with the structure of the local government system in Hungary. The present system consists of over 3,000 units; hence, the question of efficient service delivery capacity within a fragmented system of small municipalities looms large. The second is the legal and financial frameworks that lie behind such endeavors; for example, the intergovernmental grant system, laws on municipal associations, and the potential contradiction between the two, have had significant bearing on the success and overall impact of the project.

The Act on Local Governments of 1990 devolved authority to local government in accordance with the principle “one municipality, one government.” As a result, 3,163 autonomous local governments were founded, nearly three-quarters of which govern settlements populated by less than 2,000 inhabitants. The formation of viable municipal associations is therefore considered to be of crucial importance in enabling local governments to efficiently provide the services for which they are responsible. In the case of the 33-member-strong Hajdu-Bihar Association, 28 villages are of a population of 2000 or less. The majority of these currently deposit (and burn) garbage in illegal open dump sites. Obviously no one member village has the financial or material capacity to dispose of its solid waste economically and/or in accordance with environmental regulations. Their only recourse is to contract with an existing landfill in the area or to join other villages in applying for targeted central government grants that have been set up for large-scale infrastructure projects. Of the area’s 33 settlements only the largest town, Berretyóújfalu, has an organized waste collection system through the operation of self-loading waste compressors. Modes of transport in other settlements range from privately contracted trucks to horse-driven carts.

Because the first option is simply not feasible for the majority of the participating villages, banding together with other local governments to resolve the solid waste problem, which would also enable the participants to apply for central government grants, was the underlying thrust of this project. Yet here is where difficulties in the process arose.

Under Hungarian law, the targeted grant system does not allow for funds to be issued to municipalities with populations of less than 2000 persons. Further, in the case of solid waste landfills, a minimum of 60,000 recipients of the service delivery is needed for the grant to be applicable. (The Bihar Solid Waste Association barely ekes by with 61,000.) Finally, the combination of grants for which municipalities are eligible (central government subsidy, environmental fund, and regional development council) leaves about 20 percent of the costs to be covered by own sources. (To complicate matters, the environmental fund will not grant its share, approximately 15 percent of the total costs needed, unless the members of the association can prove that they have own sources to cover the deficit.) In this case the association will be required to apply for

bank loans to cover own sources. Unfortunately, legal requirements dictate that individual municipalities—not associations—apply for loans and common perception holds that small villages are not creditworthy in their own right. In such cases, smaller villages usually hide behind a larger, creditworthier partner. In the case of the Hajdu Bihar Association, however, there is no such partner.

A further problem with the current system arises from the application process for targeted subsidies. Local governments apply for the grant collectively, i.e., as an association. Yet they are awarded the grant as individual local governments. This means that should one municipality change its mind at a later date and opt out of the association, then the application is declared null and void and the procedure has to start all over again. Furthermore, while local governments receive the money as individual entities, they are held responsible for spending the money in congruence with their application.

These two factors caused considerable strain among the actors involved in the project, especially in the initial period of formation. As many participating villages have previously had little experience in associating and building upon relations of trust, and because of the seeming fierce protection of their newly gained autonomy, the process of formation was unduly prolonged. Some of the villages were nervous about taking on the kind of long-term commitment required to join the application for targeted subsidy, and their hesitation was often exacerbated by suspicion of their partners' level of commitment.

From the perspective of this background, the successful implementation of the project, that is, the formalization of the Association as a legal entity and submission of all relevant permits and feasibility studies to the appropriate authorities, has had considerable impact on those immediately involved in the project. It is hoped that the grant will be awarded, bank loans received as needed, and construction begun over the next two years. Only when this happens will the project really begin to gain the publicity needed to assess wider impact among the citizenry affected and other Hungarian municipalities.

Lessons Learned

Technical assistance to associations must be artfully conceived. International donor intervention on behalf of the target organization must be as invisible as possible to ensure the integrity of the self-organizing principle of association life as well as to ensure that principal actors are being empowered to act both on their own account and in concert with others. This is certainly not an easy task by any means, especially given the historical legacies of post-communist countries. In other words, precedents are few and far between, there is a concerted lack of trust toward other members (or outsiders for that matter), and the legislative backdrop is still somewhat unarticulated, or confusing at best. Nevertheless, despite the constant pitfalls and external barriers that arose during the initial



years of formation, the Bihar Solid Waste Association has seemingly begun to behave as a self-organizing entity. The paradox, however, is that this did not become clear until UI steered its assistance away from the main activities of the association and into the background of providing assistance in narrowly targeted areas. This approach created some dissonance in the beginning of the collaboration. The previous implementing partner had set up the project in such a way that the resident advisor was the primary coordinator and source of funds for the entire operation of the association. In the vacuum that followed ICMA's departure, which was compounded by upcoming local elections, the activity of the association came to a near halt, and important deadlines were missed.

Two interrelated recommendations emerged from this experience, one of which is aimed at central government officials and the second at practitioners in this field. The first recommendation involves provision of a small incentive to local governments in the initial period of association formation in order to help make the association as self-sufficient as possible. In this way, should there be external assistance, it can move away from playing a coordinating role and instead concentrate on providing technical know-how in areas such as research and development. External support should ultimately be aimed at creating models for future use by other municipalities on similar projects or by the same local governments in different areas of need. Most importantly, the design of these models ought to take into account that most other associations will not have external assistance. The second recommendation therefore urges outside assistance providers to be as inconspicuous as possible so that the principle of voluntarism remains intact, while recognizing that some intervention might be necessary to see the project through inevitable rough spots.

As mentioned above, incentives may be necessary to assist local governments in getting past the first post in the formative period. The incentives UI proposes are different from the incentives currently available under Hungarian law. At present the Hungarian government offers municipalities banding together for infrastructure investment an extra 10 percent of project costs as part of the targeted subsidy. UI believes, however, that a much smaller amount—geared toward a different purpose—could be vastly more useful, as the sticking point for associations seems to be in the organizing phase, long before the targeted subsidy could become available. A small fund for initial coordinating costs could be placed at the disposal of an association in a way that minimizes bureaucratic requirements, for instance, provided to an elected board upon the declaration of several local governments forming an association. This sum would be matched when the association actually becomes a legal entity. The fund would go toward basic costs of coordination: salary of a part- to full-time coordinator whose primary tasks would be to arrange for elections of an acting governing board; liaison between interested local governments and the governing board, as well as between possible donors and the governing board; and devise a work plan that identifies needs (such as technical assistance and consultancy work on feasibility studies) and a preliminary timeline. The coordinator would also need to identify grants and bank loans available for the project and requirements of such grants and bank

loans. Finally, the coordinator would need to oversee the legal formation of the association so that it is eligible for such funds. One stipulation of the fund might be that the association immediately establish a dues system, which would eventually take over the costs of coordination.

The potential effect of this small contribution to the life of municipal association formation cannot be overestimated. The association in question was four years in the making—with donor assistance!—before it became a legal entity in accordance with the rules and regulations of the Act on the Association and Co-operation of Local Governments (1997). It is widely believed that this time could have been shortened had there been a stronger center of coordination in place from the outset. This would have alleviated the strains placed on associations owing to possible political conflict among participating cities and/or within one particular city council, local elections, the problem of a few committed participants versus free riders, and shifting priorities within various city councils. Overall a nominal sum of 350-400,000 HUF per year for the coordinator's salary would be small change compared with the 244 million HUF which this particular association is requesting from the Central Government through the targeted grant system, and may make all the difference in ensuring that the association comes into existence in the first place.

A communication awareness strategy designed for both elected officials and the public is also key for the successful, or at least smoother, implementation of potentially unpopular large-scale infrastructure projects, such as a solid waste landfill. The previous implementing partner had set up a citizens advisory board, composed of one member from each village, whose main task was to disseminate information concerning the landfill project. The board participated in the initial siting process and helped develop related criteria for the site. They also toured neighboring lined landfills in order to learn about environmental issues. Nevertheless, this proved not to be enough; when it came down to one city council voting on a proposal that the site to be in the jurisdiction, ignorance still seemed to dominate and the plan was rejected. UI arranged for a Hungarian consultant whose profile includes being the manager of a landfill in western Hungary to travel to the city and meet with the council to discuss their concerns. Participants in the meeting believe that the presentation swayed many skeptics over to the side of the landfill construction. This experience prompted UI to realize that communication strategies aimed at educating the public on important issues need not only to include elected officials within that strategy, but to in fact target them directly. UI thus encouraged the association to prepare "fact sheets" on various issues related to the construction of the landfill. These include environmental concerns and impacts, for example, addressing the very need for a legally regulated landfill as opposed to open burning dump sites; and financing options, namely, how much the project costs individual members, how much the members of the association will save from this endeavour, and so on. Unfortunately, timing affected the successful implementation of this communication strategy. Local elections, delays in the city council vote on the final selected site, and delays in member villages formally joining the



association delayed receipt of the necessary financial information for producing the fact sheet. The association, however, was encouraged to produce such an information packet on its own once all the necessary figures came in and the idea was enthusiastically accepted by the coordinator of the association.

Measures for Institutionalization and After-Program Impact

The Bihar Solid Waste Association is now a legal entity and, with the assistance of UI, has gathered all necessary feasibility studies and permits (land, building, environmental, etc.) necessary for application to the central government targeted grant system. The Association has a governing board and two coordinating assistants. The Association intends to submit its application for the targeted grant on September 1, 1999. From the perspective of the Association, this project has not been easy: given the problems that arose along the way and the lengthy time-frame it took to get the Association in a position where it could apply for the necessary funds, further cooperative efforts among some or all of its members on other projects may be looked upon with some trepidation. But, despite the difficulties entailed in this process, financial and environmental necessity may dictate that some cooperative form continue in this and other development or service delivery activities. For that reason, the project has provided some useful results that may be valuable for other potential associations in Hungary. The concrete experiences and expertise gained, including legal framework, financial aspect, and environmental concerns, on the part of the members of the Association ought to prove highly useful in the years to come. Important too is the work done by various consultants in the project, who have also learned the tools of the trade and who will be likely candidates for assisting other like-minded associations in other parts of the country. These include Consulting Rt, the consultancy company in charge of putting together the financing scenarios; TerraMed, an environmental water planning and services company, whose long-term involvement in the project certainly provided them with experiences they can take to other projects; and András Kovács, director of the Győr Communal Services, Kft. (and expert advisor on such issues in many different forums), who provided the Berretoyóújfalu city council with a presentation on the simple efficiency and environmental soundness of lined landfills.

Finally, a policy note has been prepared based on the experiences of this association. This note includes a brief summary of the acts passed regarding municipal associations, the problems that inhered in the concrete experience of the Bihar Solid Waste Association and recommends that the Central Government provide a small incentive for local governments in the formative period of associating.

BUILDING A MORE COMPETITIVE AND MARKET RESPONSIVE HOUSING FINANCE SECTOR

There are a number of constraints that have impeded the development of retail banking and housing finance in Hungary. Those affecting housing finance in particular include:

- *There is a strong tradition of subsidies to make housing affordable.* Significant subsidy reform has reduced the link between mortgage debt and subsidy and thus the distortions to the financial sector. However, the government has consistently been under pressure to expand direct subsidies and to introduce indirect subsidies for housing finance, such as guarantees of mortgages or mortgage bonds. Urban Institute efforts focused on facilitating further reform of the system to reduce and target subsidies and channel them away from the financial system.
- *Banks in Hungary were unfamiliar with handling credit risk, especially with regard to delinquency and foreclosure.* Past assistance has resulted in improvements in the legal framework, which have streamlined the foreclosure process. UI worked to further reform the system, and to help banks acquire the information and skills for managing instances of delinquency.
- *The sector was dominated by the OTP, which well into the transition originated 90 percent of all housing loans.* As a result, the OTP had no incentive for efficiency or to promote affordability, resulting in expensive housing finance. Some recent signs of an increase in competition in the sector include the creation of three Housing Savings Banks, now competing vigorously for savings contracts, and indications that other recent entrants may be considering increasing their participation in conventional housing lending. UI worked to support competition in the sector by supporting the development of diverse forms of housing finance provision, as well as the above-mentioned work on mitigating credit risk, a frequently cited barrier to entry.
- *Interest rates continued to be too high and volatile to support sufficient low-risk affordable lending.* Interest rates over 25 percent prevented households from borrowing a meaningful portion of housing costs without subsidy. Moreover, sharp variation in rates exposes banks and borrowers to risk. UI provided assistance to savings cooperatives in implementing and marketing mortgages that allow households to borrow more and buffer borrowers and banks from interest rate volatility.

Hungary has been grappling with its serious home mortgage debt problem and looking for alternative means of financing home ownership. During the previous regime,



most housing loans were made at highly subsidized rates either through the OTP or the savings cooperatives. When the prices of financial instruments were freed, the full extent of the subsidy became more evident. In 1989 the governmental expenditures for mortgage support equaled 3 percent of GDP. At that time, the government began to take steps to move mortgage rates to market levels and began to restructure the OTP, the largest financial institution in the country. The great majority of loans continue to be made by the OTP and despite reductions, they still benefit from significant government subsidies. However, underwriting is no longer perfunctory and recovery efforts are serious, even if eventually stymied by the lack of consistent attempts to enforce foreclosure laws or eviction. Importantly, a number of new actors – commercial banks, a mortgage bank, and three Housing Savings Banks – have recently entered the housing loan market.

With large increases in the lump sum subsidies for new housing and subsidies to the new contracts savings program, the Government of Hungary (GOH) still spends a total of close to 4 percent of the budget on housing, although total housing subsidy expenditures are declining, largely due to the decline of obligations from earlier subsidies. This decline may not continue with ongoing political pressures from a public unwilling to bear the full market cost of housing. UI provided policy assistance regarding subsidies, encouraging reductions and better targeting. Much of the assistance has been aimed at instituting more consistent analysis of subsidy policy within the GOH.

As of 1991, the GOH was bearing a huge fiscal burden in order to support the housing sector by deeply subsidizing mortgage interest at a time that interest rates were over 30 percent. Encouraged by changes in the subsidy system, which greatly reduced loan affordability, the OTP introduced the Deferred Payment Mortgage (DPM) – an instrument designed by UI – in March 1994. By mid-1998 almost 7000 DPMs had been issued, with an average loan size of well over twice that of non-DPM housing loans. To increase availability of the DPM, UI provided technical assistance to Takarékbank and its associated savings cooperatives, as well as to the OTP. A Housing Guaranty (HG) program⁶ was designed and approved by the Governments of the US and of Hungary to provide long-term funds to encourage use of the DPM and entry by new lenders, but was declined by the GOH in 1997 before the first borrowing. Meanwhile, the

⁶ Technical assistance on housing finance had started under an earlier Urban Institute contract in 1990, with a focus on policy reforms designed to reduce and rationalize the subsidy system. The possibility of a HG was raised and formally requested by the government. Serious discussions proceeded in 1992 and the package of reforms and capital contribution was finalized in the summer of 1993 and signed in May 1994. The accompanying technical assistance began immediately, as did the reform process, with the goal of meeting conditions precedent for the first tranche. The government adopted a coherent housing policy document in May 1993, announced a sharp reduction in mortgage subsidies for 1994, and enacted key legislation in 1994, 1995, and 1996 improving loan recovery. The OTP prepared for the introduction of the DPM as soon as possible, in March 1994. Mechanisms were set up to measure the impacts and to continue policy reforms. Assistance was offered to potential participants. Nearly all details of a disbursement were settled in summer 1995 when a change in personnel at the Ministry of Finance delayed implementation. Soon after, Hungary's credit standing had improved to an extent that the HG funds were no longer attractive. However, by that point, the government had met all of the policy goals of the HG within its control. From a policy perspective, the HG was very successful, by meeting the program goals without requiring an actual borrowing.

government did sharply reduce its subsidies to the sector, as well as support significant strengthening of loan recovery powers, two major goals of the HG.

Indicators

As part of the planned HG program (see above) a set of six “end-of-project” status indicators were drawn up to monitor the attainment of the HG objectives. These indicators were later adopted as success indicators for the overall housing finance program.

As summarized in Table 1, Hungary substantially improved the efficiency of its subsidy systems and the effectiveness of the housing finance sector. Despite this, it did not fully meet all of the stated goals. It reduced loan subsidies by about 69 percent (somewhat less than the goal of 80 percent in Indicator 1). The real value of non-loan subsidies declined by 40 percent, but the efficiency of the remaining amounts were not increased (Indicator 2). More of total housing subsidies were directed to the lower half of the income distribution, although the targeted two-thirds was not attained (Indicator 3). Legal support for loan recovery has made tremendous strides (Indicator 4). On the other hand, actual management of credit risk by the OTP has not advanced significantly (Indicator 5). Finally, competition among commercial banks appeared in 1997 and expanded further in 1998 (Indicator 6), a significant improvement. This success, however, has been somewhat mitigated by the start-up of the “housing savings bank” system which to some extent overshadows the positive prospects for market-based housing lending.

Table 1. Success Indicators for the Housing Finance Program

INDICATOR	GOAL	STATUS IN 1998
1. Reduction in Loan Subsidies	80 percent reduction	69 percent reduction
2. Analysis of Other Subsidies	Increased efficiency	Decline in amount; not more efficient
3. Income Targeting	66 percent of subsidies to bottom half by income, as measured by household income and income per person	More than 66 percent of subsidies to bottom half by income per person, and 50-60 percent to bottom half by household income
4. Improvement in Loan Recovery	Certainty of recovery in less than 3 years	Statutory bases in place, but not yet in practice
5. Reduction in OTP delinquency rate	75 percent decline in delinquencies	No improvement
6. Improved Housing Finance Market	More lenders, long-term funding, etc.	At least 7 additional lenders; part of the increase in competition, however, are due to growth of inefficient contract-savings system.

DISCUSSION OF PROJECTS



Review of Loan Recovery Regulations and Practices

Strategic Framework

This project carried out tasks addressing credit risk by creating streamlined loan recovery procedures, including foreclosure and eviction, and better credit management procedures under the Life-of-Project work plan for bringing about housing finance system reform. The work contributed to USAID/Hungary's Strategic Objective 1.4: *a more competitive and market-responsive financial sector*.

Implementation

Since the passage of critical changes in mortgage legislation and the Civil Code, the current legal framework for securing real estate loans is very strong in Hungary. Recent amendments permit foreclosure and repossession without the lengthy judicial proceedings required under previous law. However, an Urban Institute report found that these legal provisions have not made a substantial difference in real estate lending practices actually used by Hungarian banks. Foreclosure and eviction still are rarely used in cases of residential loan default, with banks preferring remedies such as renegotiating loan terms or seeking payment from guarantors.

USAID sponsored a loan recovery colloquium for policy makers and bankers from Croatia, Slovakia, and Hungary in December 1996 at which they discussed the current situation and ways of improving foreclosure practice in those countries and other means of loan recovery. As a result of the colloquium, a Loan Recovery Working Group -- comprised of representatives from banks, the Ministry of Justice, the Courts, and the notaries -- was formed in Hungary to promote legal and administrative changes to improve credit risk, and the group's first forum on loan recovery was held in October 1997.

Three subcommittees of the Working Group were established to continue to identify and resolve impediments to the security of housing lending in Hungary. These groups worked on: 1. bank experience with loan recovery; 2. the use of public documents; and 3. legal reform. In April 1998, all three committees came together to discuss their progress and to develop a plan of action to develop and implement recommendations. Subsequent meetings were held in May and June. The results of these gatherings are as follows:

- Subcommittee 1. *Bank Experience with Loan Recovery*: This group tackled the following two issues: what are current bank practices in recovering loans in default and how do they operate as a disincentive to a competitive housing loan market, and how to improve the currently inefficient and long foreclosure procedures which result in low rates of return for defaulted loans. The group first gathered data from K&H, the OTP, and several Savings Cooperatives, and then undertook a more detailed study of statistics on delinquent loans issued by the OTP.

- Subcommittee 2. *The Use of Public Documents*. After identifying what data are necessary for studying the costs and advantages of using public documents, this group prepared a report that summarized the notaries' point of view toward public documentation. A second study was undertaken to identify the different phases and associated costs of two foreclosure cases – when the lending contract is prepared as a public document and when it is not. The group initiated conversations with banks and notaries to discuss how the industry could work together more efficiently and recommended that standardized forms be developed.
- Subcommittee 3. *Legal Reform*. This group reviewed current legislation and made recommendations for closing remaining gaps in the law, particularly with regard to property eviction procedures and practices, and order of satisfaction of creditors after execution of a judgment against the borrower.

In the Autumn of 1998, the Loan Recovery Working Group provided reports on these topics and their recommendations for legislative and procedural changes to improve impediments to loan recovery. These results were presented at the national housing finance conference held in November 1998, attended by all the major lenders. A final report and recommendations were prepared and issued early in 1999 at the final USAID-sponsored Loan Recovery Working Group seminar.

As an adjunct to this work, experts prepared advisory material for the Ministry of Justice in response to questions raised by the Ombudsman regarding foreclosure of pre-1989 housing loans.

Impacts

The Loan Recovery Working Group brought together the main interested parties – banks, government, courts, notaries – for the first time, allowing them to challenge their own preconceptions and reach consensus on important issues. Together they reached agreement on what changes are needed, making it more likely that improvements would be made in legislation and in practice. The group also was able to carry out the first comprehensive evaluation of delinquency rates and the actual procedures used to deal with them.

Despite the existence of a favorable, market-oriented legal framework, the banking community, and especially the OTP, continue to limit their use of the full range of tools available to them under the new laws. Some bankers believe other remedies, such as renegotiating loan terms or seeking payment from guarantors, are preferable because they are less problematic, even if they are insufficiently effective. In addition, non-judicial foreclosure is available only if the loan documents are notarized, and this procedure is quite expensive. Despite some improvements in procedures it may be that



lenders will only take serious action to reduce costs from defaults with the advent of enough competitive pressure on excessive margins.

In addition to gaps in the legal framework, loan recovery has been somewhat impeded by the political sensitivity of default enforcement. This perception was reinforced by the handling of the first set of loans to be eligible for reimbursement under the government's guarantee of the pre-1989 loans. It has taken 5 to 7 years, but all legal procedures have been completed and the OTP has wanted to cash in on the Ministry of Finance guarantee of these old loans by following through with sale and eviction. This created some controversy, mostly through the efforts of those being evicted to publicize their situation. For a while, it seemed that the focus of the criticism was the foreclosure procedures themselves. Changes made in these could have undone a lot of the careful work to create an environment supportive of loan recovery. Instead, the net result of these pressures was a declaration of a moratorium by the government and the OTP in going to eviction in such cases, until after the elections.

Since then, there have been a number of further developments. A new law was passed requiring local governments to provide assistance to needy people with delinquent loans. The assistance would require that borrowers first reach agreement with their bank, and then they would become eligible for up to 70 percent of their repayment to be covered by local and central government subsidy. The deadline for preparing decrees regarding this assistance was pushed back from September 1998 to September 1999, but few local governments have yet complied with this requirement. In the meantime, the Ombudsman has made another recommendation to the Ministry of Justice that measures be introduced so that low-income borrowers can be exempt from foreclosure through a court decision.

The moratorium on OTP action has been lifted, and the OTP is moving forward: they will terminate 90,000 contracts and start foreclosure procedures on 40,000 of those, while the balance will still have a final opportunity to reach a work-out agreement with the bank. All terminated contracts are to be handled by the OTP's new workout organization, OTP Faktoring Rt.

UI was able to make some change in the public perception of loan recovery through its work with the media, to undercut the over-simplified view that foreclosure simply creates homeless families. At a press conference held at the time of the March 1999 Group meeting, UI was able to present the viewpoint that as long as banks do not make use of their rights to foreclose and evict, they will be reluctant to issue more housing loans, because they will regard them as insufficiently secure. As this point of view becomes commonly held, the pressure on banks and on the government to resist loan recovery enforcement should be mitigated. The articles published on the event reflected the intended messages quite correctly: all of them referred to the crisis of housing lending in Hungary and summarized the Working Group's recommendations. The two papers primarily targeted by the press event were the two financial dailies,

Világgazdaság and *Napi Gazdaság*, as they are the papers most frequently read by bankers and economic decision-makers. Both papers dealt in detail with the problems that hinder banks from issuing more housing loans and give an overview of the Hungarian housing loan market. Many other influential papers also carried the story in a favorable light. The two conservative political dailies, *Napi Magyarország* and *Magyar Nemzet*, highlighted the fact that if auctioning procedures were faster and smoother, borrowers would suffer less and banks would be less reluctant to enter the housing lending market. *Metro*, the popular daily, focused on the popular perspective, i.e. what the borrower will gain from the Working Group's recommendations. *Népszabadság*, Hungary's largest daily, devoted three pages to the issue of mortgage-based housing lending in its banking supplement, including a lengthy analysis of the affordability of housing loans.

The number of articles published on housing finance has more than doubled since the Housing Finance Conference in November 1998 (at least partly due to intensive public relations efforts undertaken in conjunction with the conference). None of the journalists present at the press conference criticized banks for making strong efforts to recover their loans. Due to the event, many representatives of the media understood that eventual evictions and foreclosures should be seen as part of the broader picture: if banks can easily access the collateral, they will be more willing to issue housing loans, to the benefit of potential home buyers.

Lessons Learned

Bringing together representatives of all relevant parties to discuss the issues and reach consensus was helpful in reaching an understanding of the problems of loan recovery and preparing recommendations to solve them required. Otherwise, each party had a tendency to blame the others without examining its own role. For example, lenders said loan recovery took too long because of delays in the courts, when in fact the banks themselves were very slow to take action against delinquent borrowers, making the process much longer and loans more difficult to collect.

While Hungary has passed very progressive legislation in recent years to facilitate loan recovery, lenders did not use all the tools now available to them to minimize default risk, either because they were unaware of the terms of the new laws or did not understand how they could be helpful. Bringing all the parties together for face-to-face discussions in a supportive atmosphere, both in the Working Group and in larger seminars and conferences, helped disseminate information on existing legal reforms.

Persons, who must implement the new laws, including lawyers, notaries, judges, and execution officers, at first resisted the idea of enforcing the more market-oriented reforms, out of old assumptions that the public would be harmed by strict loan enforcement. As a result of participation in the Working Group, they became aware that residential lending could only develop on a competitive basis, making loans more



available and affordable to the average person, if the new laws were enforced. This made the legal reforms more acceptable and likely to be implemented.

Through discussions among persons with practical experience, a number of omissions and inconsistencies in the new laws came to light. Recommendations for specific amendments were developed as a result, with a consensus among both the practitioners and legislative drafters from the Ministry of Justice that the changes were needed. This made it much more likely that the law will be changed, and the new procedures will be implemented.

Measures for Institutionalization and After-Program Impact

The media work has begun to alter ideas of the general public about loan recovery, which should make it more likely that banks will make more effective use of the loan recovery mechanisms already in place.

A coterie of high-level sector participants has been created, which can continue the Working Group's work without USAID intervention. Although it is not certain whether the Loan Recovery Working Group will continue in its present formulation, members of the core group are likely to keep in touch with each other. Also, the Metropolitan Research Institute will be available to facilitate future meetings or studies.

Technical Assistance to Savings Cooperatives

Strategic Framework

This project provided technical assistance to the Hungarian Savings Cooperatives to help them issue the Deferred Payment Mortgage in order to increase competition in the housing sector and improve the affordability of housing, under the Life-of-Project Work Plan for housing finance system reform. This contributed to USAID/Hungary's Strategic Objective 1.4: *developing a more competitive and market-responsive financial sector*.

Implementation

As part of its efforts to increase the availability of Deferred Payment Mortgages (DPMs) from lenders other than the OTP and to strengthen competition among housing lenders, UI supplied technical assistance through Takarékbank to savings cooperatives that intend to market DPMs. In the summer of 1996, advisors met with a DPM Committee consisting of representatives from savings cooperatives, OTIVA (cooperatives' banking supervisor), OTSZ (a national lobbying group for cooperatives) and Takarékbank (coordinator of financial activities for the cooperatives). The meetings focused on product development, loan origination and training issues. Additional assistance was provided regarding funding, pricing and business planning, loan origination, loan servicing and

training issues. In 1997, it was decided that four cooperatives will begin to offer the DPM in a pilot program, and advisors met with each of the four. In 1998 a training of trainers was held for the regional representatives of Takarékbank.

Impacts

There were two goals in providing assistance, (1) the offering of DPMs by lenders to meet the needs of the central government and of borrowers, and (2) the expansion of competition in the market. The work's impact on both these goals was limited by a number of factors.

The DPM allows borrowers to reduce their current repayment burden in return for higher payments in the future, as inflation boosts prices and wages. It had been implemented only in Australia as of 1992 and program assistance was needed to develop it into a viable offering in Hungary. It played an essential part in setting the context for the government to withdraw its major loan subsidies in 1994, since it allowed Hungarians to maintain their borrowing levels in the face of high nominal interest rates without subsidies. Extensive training and advice was provided under the earlier contract in the implementation and marketing of the DPM, and this assistance was crucial to the success that the OTP has had in making over 7000 such loans. It appears, however, that most of the public was not relying on mortgage finance after all to be able to buy housing; after the end of the subsidies, buyers of existing houses switched to all cash transactions (about 90 percent in 1997) rather than utilize loans. In contrast, there were certain advantages for some to using the DPM with respect to maximizing access to subsidies for the purchase of new housing. More than 7,000 DPMs have been made since 1994, and the total annual HUF volume of DPM lending has been greater than conventional lending for new construction.

Another factor limiting public acceptance of the DPM has been bank staff's failure to fully convey the advantages of the instrument, both because they themselves may not fully understand it, and because they fear borrowers would be unable to comprehend all of its features. Accordingly, a major component of the cooperative-based program was the training of trainers who then would provide training about the DPM throughout the system. The training did have some impact. Participant feedback said generally the course was worth the time spent on it, and that they would recommend the course to others. They found the product description and the product software the most useful. Another highly successful section was the presentations on training techniques. These skills should increase the impact of future presentations on the DPM by the participants, as well as generally improving their performance in training about a variety of bank products and indirectly facilitating development of the housing finance sector. Several participants felt that the selling skills portion was quite useful. However, the training was hampered by the lack of management support and consequently, the trainers had a low commitment to the program. Further, necessary training equipment was not made available.



More generally, USAID's counterpart, Takarékbank, stymied progress on the project, as discussed more fully below under *Lessons Learned*.

The result of the above factors was that few DPMs have been issued by savings cooperatives – except for those who are exceptionally entrepreneurial. Nevertheless, the instrument is in their possession, and regional representatives have received training in both the instrument itself and in important sales techniques.

Further competition in the housing finance sector developed more slowly than hoped. In large part, this was because households in Hungary were not as reliant as they first appeared on mortgage credit for house purchases, thereby blunting the appeal of the DPM and shrinking the attraction of mortgage lending to potential new entrants to the market. In addition, the transition in the banking sector took longer than expected and has delayed the entry of more banks into the mortgage market and thus the increase in competition UI worked towards. This might have been foreseeable, given the many steps required to achieve privatization and a shift in corporate culture and market positioning. However, competition in the housing finance sector was much faster to appear in the Czech Republic and Poland, suggesting that expectations of a more rapid transition were reasonable.

Lessons Learned

Certain problems within the cooperatives themselves made it difficult to advance. The principal one was USAID's counterpart, Takarékbank. First, both bank management and the individual appointed as counterpart were not satisfactory, causing significant delays throughout the project. One point of debate, for example, concerned the need to wait for the development of software for processing the DPM before proceeding with technical assistance. In the view of technical advisors – with the concurrence of individual savings cooperatives – the software was not necessary because a simple Excel spreadsheet would work as well, particularly in view of the fact that any individual cooperative would not expect to have more than a few DPMs at the inception of a roll-out. Nevertheless, at the insistence of Takarékbank, the debate on software and how it would be developed and paid for went on for about a year. Another example is the training of trainers, which was postponed for several months in the first instance and very badly managed when it actually took place.

Another difficulty with Takarékbank was simply the nature of its relationship with the savings cooperatives. Since the transition, the cooperatives have become highly autonomous, and regard the Takarékbank primarily as a source of information and assistance in liquidity issues, as opposed to looking to it for direction. As the process went forward, it became clear that Takarékbank had no actual control over the operations of the savings cooperatives, and thus the assistance was not creating any change at the operational level. This meant that UI did not easily have direct access to

the cooperatives themselves, nor was Takarékbank able to effectively represent the viewpoint or interests of the cooperatives or provide assurance of how they would receive the products of the technical assistance. More progress was made when direct contact was made with four savings cooperatives intended to be pilot lenders of the new product.

In sum, the choice of a partner proved to be a decisive factor in impeding progress in the project, as the bank did not have direct access to or control of the savings cooperatives, and the individual counterpart was lethargic and indecisive. It would have been wise to insist on the appointment of a different counterpart and to have built in more direct contact with cooperatives earlier in the process. Failing those changes, USAID and UI might have done well to stop the project earlier.

Measures for Institutionalization and After-Program Impact

Training materials and the instrument design and software are in the hands of the regional representatives and of the pilot savings cooperatives. Also articles on the DPM and the pilot project were printed in a magazine circulated to all savings cooperatives. A further measure has been to share the training materials with the Bankers' International Training Institute.

With respect to the larger issue of home buyers' reluctance to borrow, an initiative was taken in conjunction with USAID's Public Education program (by UI under a different contract) to prepare an information brochure on housing loans. The brochure has been widely distributed nationwide by the major Hungarian home lenders.

Technical Assistance to the Hungarian Government on Housing Subsidy Policy

Strategic Framework

This project included various policy reform tasks under the life-of-project work plan for bringing about housing finance system reform by contributing to fiscal strengthening through the reduction and targeting of housing subsidies. The work contributed to Hungary/USAID's Strategic Objective 1.4: *a more competitive and market-responsive financial sector*.

Implementation

UI provided technical assistance to the Ministry of Finance on housing subsidy policy on an on-going basis. Recently it supported the work of the Housing Policy Committee's Subcommittee on Subsidy Analysis, which consisted of four working groups. These focused on (1) the priorities of Hungary's housing policy; (2) changing the current housing construction subsidy system; (3) social housing; and (4) housing renovation assistance programs. The operations of the Committee were a reflection of the



improved policy making functions in the government of Hungary. Experts from the various interested parties and institutes were gathered and background studies were prepared in construction subsidies, tax subsidies, social rental housing, and rehabilitation. The Committee then debated these and formulated recommendations, including noting any significant views not held unanimously. In summary, the Committee concluded that there is no numerical housing shortage, and that current subsidies that emphasize new construction need to be supplemented (and eventually supplanted) by matching grants to local governments that are targeted for assisting housing of low income households through whatever approach is most efficient and effective. In February 1998, the subcommittee presented recommendations for the FY 1999 budget. The proposals were accepted and returned to the subcommittee for final negotiation of details.

In addition, UI team updated the Housing Guaranty Loan Program indicators, first developed in 1994. These measure the impact of Hungarian housing subsidies and show how they have changed with respect to targeting and to their impact on the financial sector and the Hungarian budget. (See above.)

Impact

Immediate impact of the work was limited due to political considerations. However, it appears that the political and economic imperatives are doing the job of curbing the political impulses to increase subsidies in the short term. In the run-up to the elections in May 1998, all the major parties emphasized their concern about the housing sector, and most promised to expand subsidies to the sector. After the elections, a coalition of three parties was installed and it was clear to them that the budget could not fund all of the election promises. In this process, it was noteworthy that all of the civil servants previously involved in developing housing policy remain in their positions and contributed to efforts to limit the expansion in housing subsidies. There was a reorganization of housing policy-making officially, with housing policy strategy shifting to the new Ministry of Economy, and the detailed regulation and budgeting staying in the Ministry of Finance. Fortunately, these two groups, which had been integrated, are still cooperating closely in the development of a number of new initiatives along the lines of the recommendations of the Committee of Experts, making it more likely that some of the suggestions will be implemented.

In 1999 several changes were made as a result of the recommendations of the National Housing Policy Council. First, a new housing grant for local governments to distribute was established, in which the size of the grant will be defined by demographic, housing, and income variables. Second, the need for providing incentives for private rentals became widely accepted by the central government and the tax on rental income was reduced to a flat tax rather than leaving it subject to treatment as any other source of personal income. Finally, the new government housing policy paper issued in the spring of 1999 incorporated most of the subsidy subcommittee's proposals.

Perhaps most importantly, the very existence of the subsidy subcommittee, and its ability to routinely provide high quality analysis, has established an expectation in the government that this sort of work is a natural prerequisite in the development of housing subsidy policy.

Lessons Learned

The progression of this project makes clear that political considerations and timing will not bend to the desires of funders. In order to avoid presenting policy suggestions at a time when they will simply be shunted aside, it is important to plan around the political calendar.

Having a close associate of the program actually be a member of the crucial government committee is of course invaluable if that is possible. The program was fortunate that this was the case and that in that way USAID assistance was an inherent part of policy development work in government circles. Providing ongoing, though low-level support to Hungarian experts eventually resulted in some key measures being adapted, and in the acceptance of the need for routine high quality analysis.

Measures for Institutionalization and After-Program Impact

With the transfer of housing policy responsibilities from the Ministry of Finance to the Ministry of Economic Affairs, the subsidy subcommittee was officially terminated. Nevertheless, a series of multilateral working groups along the lines of the earlier Housing Policy Committee have been formed to work on different aspects of housing policy.

The most important form of institutionalization has been in the above-mentioned acceptance in policy circles of the need for quality analysis on a routine basis.

Policy and Legal Support

Strategic Framework

This project carried out housing policy reform tasks aimed at putting in place the policy framework necessary for market-oriented housing finance under the life-of-project work plan for bringing about housing finance system reform. The work contributed to USAID/Hungary's Strategic Objective 1.4: *a more competitive and market-responsive financial sector*.



Implementation

UI has been providing policy support to the national government since 1990, beginning under a previous contract. The assistance in the final three years included biannual visits by an expatriate policy expert, preparation of reports on issues as they arose, and support for the policy advisory activities of domestic experts. Some of the assistance was provided directly to the relevant officials and some through submissions in support of government committees charged with formulating housing and housing finance policy. The work included review of legislation on contract savings programs, and in addition to extensive work on subsidy policy (see above), advice on the status of the mortgage market, the advisability of a mortgage insurance institution and possible opportunities for mortgage banks in Hungary. In order to examine developments in the housing finance sector within the context of Central Europe, a paper was prepared on housing finance in Poland, the Czech Republic, Slovakia, and Hungary, and principal findings presented at the Housing Finance Conference (described below) held in late 1998. In addition, the project facilitated the attendance of a staff member from the Economic Analysis Unit of the Hungarian National Bank at the University of Pennsylvania's international housing finance course.

Impacts

The success of this assistance in shaping policies was somewhat limited by the political considerations of senior decision-makers. In particular, there are two major subsidies (the housing construction allowance and contract-savings scheme) which were criticized as costly and inefficient, but were politically popular. Decisions relating to the contract savings scheme were also influenced by the strong pressures exerted by foreign financial institutions, primarily the Bausparkassen and mortgage banks of Germany and Austria, to shape policy stances in their commercial favor. It is unlikely that successful countervailing efforts could have been mounted in the case of the Bausparkassen, since they relied on direct political lobbying that was outside the scope of this project.

However, the general principles and most of the specific perspectives embedded in the advice have been accepted by most officials and incorporated into a number of government policy documents and internal decisions. For example, shifting more of the credit risks in mortgages to the government was recognized as inadvisable and there are biases towards limiting contract-savings subsidies and reforming the housing construction allowance. Moreover, the community of policy commentators will be working towards adoption of more efficient and transparent policies in the future.

Lessons Learned

In the short run, technical assistance's impact on policy making is likely to be limited because top decision-makers tend to act based on considerations other than

reasoned policy analysis. The influence of such analyses is usually in the long run, in framing the questions and the range of "acceptable" answers. For example, as it is shown again and again that some attractive policy approach is inefficient and unfair, it gets ruled out of discussion. This is illustrated by the perception in Hungary today that the housing credit allowance is discredited, as are child-based subsidies in general. Thus, work on many issues will only flower over the next five years, now that "everyone" in the lower level policy community has heard the message.

It did prove to be extremely effective to have continuity, both in the form of senior US advisors and respected Hungarian experts. This enabled even low-cost periodic assistance to result in the acceptance of some key principles, which will continue to improve the development of housing policy.

Measures for Institutionalization and After-Program Impact

The senior staff of MRI are well prepared to continue advising the government formally and informally on most housing policy issues. Unfortunately, as in most countries, there is no strong locus of policy making for the housing finance sector within the government, and indeed, responsibility for housing policy has just been moved from the Ministry of Finance to the Ministry of Economic Affairs. Nevertheless, all the key players in Hungary housing policy have been in contact with Urban Institute advisors for many years now, and as discussed elsewhere, now expect quality analysis as a routine part of policy development.

National Housing Finance Conference and Lender Workshops

Strategic Framework

This project supported work in sector by carrying out a close-out conference and preparing and presenting a training course for lenders. The work contributed to USAID/Hungary's Strategic Objective 1.4: *a more competitive and market-responsive financial sector*.

Implementation

As part of efforts to build a stronger housing finance sector and disseminate the lessons learned in other projects, a conference was held in late 1998 for bankers, government officials, and other key players in the housing finance market. Entitled "Progress and Prospects", the conference examined developments during the transition, the current state of the market, and explored possible future trends. Topics included the prospects for housing finance at commercial banks, a look at the structure of the market featuring panel presentations from the three main institutional types, the implications for housing finance of the future pressure from the European Union (EU) for harmonization and cross-border competition, and the status of the legal framework for loan recovery.



Special sessions addressed housing subsidies, and the specific issues of construction finance and lending for condominium renovation. The conference itself was preceded by two days of workshops for lenders, including sessions on underwriting, servicing, managing delinquency, interest rate risk, marketing, and customer service.

Impacts

The conference brought together many of the major players in housing finance, enhancing contacts among them. In addition, the presentations and papers prepared for the conference brought to the fore vital issues affecting the sector, facilitating dialogue on these matters.

A press conference was held at the time of the conference in an effort to make available to the public information about a market-based housing finance system. Key messages were that there is enormous potential for banks in Hungary in this market, and that a competitive market-based housing finance system would imply lower interest rates and larger loans for ordinary people. The event was widely covered by all the major dailies and financial papers, by radio, and by four television stations. All the articles underlined that housing lending in Hungary is still undeveloped; banks could provide a solution to the problem of housing in Hungary; interest rates on housing loans are considerably higher in Hungary than elsewhere; and reliance on self-help or state subsidies are not efficient solutions to the challenges posed by the Hungarian housing market. One interesting outcome was that because the conference coincided with government pressure on the OTP to lower its interest rates, the material from the conference was often used in subsequent stories as a background to queries to the OTP, that is, providing a justification for asking this market giant why its interest rates were so high.

Interestingly, there was a sharp rise in the number of articles on housing finance following the conference, although at least part of that increase may be attributable to the release of the government budget in January. But what seems to be clearly related to the conference is the quality of the articles. Before the conference the media focused on issues such as real estate as a form of investment, while after the conference journalists who had participated at UI events became more skeptical about the role of state subsidies and efficiency of savings banks.

The lender workshops provided more than 150 participants from the major lenders in Hungary with much needed information on a number of important aspects of real estate finance. Several participants noted that the American example often couldn't be easily adapted to Hungarian circumstances. For instance, the underwriting program participants felt that the stress on real estate appraisal was inappropriate because the two systems of valuing real estate are so different. In fact, given the advances of the last few years both in the increase of competition and in the entry of many western banks through establishing new institutions and through privatization, the intent of these workshops – unlike the technical assistance offered to specific banks over the course of the whole program – was

to expose participants to state of the art western practices in order to give them a flavor of a fully developed housing finance market. For example, while laws and practices regarding delinquency and foreclosure are extremely different in Hungary, and available data much more limited, it was extremely interesting and motivating for participants to learn about the promise of credit scoring to help make predicting and handling delinquency much easier in the future.

Lessons Learned

The highly successful press coverage clearly demonstrates the value of intensive media outreach when public information and policy-making are important components of the program.

Measures for Institutionalization and After-Program Impact

The contacts made at the conference among participants in the sector, as well as the materials distributed there, should enhance the development of housing finance in Hungary after USAID's departure.

In addition, the lender course materials were handed on to the Budapest-based International Banker Training Center, which collaborated on their development.

LESSONS LEARNED PROGRAM-WIDE

Structural and Timing Concerns

UI program differed structurally from those of most other implementing partners in three major respects – in the breadth of its scope and its time span (nine years), and in its emphasis on integrating local partners.

First, the program had a very broad reach, with projects stretching across three USAID Strategic Objectives, and attempting to affect issues ranging from municipal finance to condominium renovation. While the cross-objective extent of the program was partly the result of projects being re-expressed in light of USAID re-engineering in 1996, in many ways this range evolved naturally, as housing and infrastructure issues became central concerns of local governments early in the transition.

To some extent, a broad array of programs can be an appropriate mechanism for attempting to influence a broad-based set of societal concerns. For instance, although projects aimed at reforming the housing finance sector and real estate association development nominally addressed two separate USAID Strategic Objectives, they were actually part of a concerted effort to help restructure and improve the housing sector in all its aspects. To have attempted to reform one facet in isolation would have wasted potential



synergy among the projects. The local government reform aspects of the program also formed a coherent whole. Particularly the municipal finance reform efforts received concentrated attention, in the form of a multi-year training program, case studies analyzing successes in depth, and support of an association to help carry on the work. Even between housing and local government finance there arose considerable synergy, and not only because of the importance of housing-related issues to municipalities. For example, lessons learned about the financial system (as the same players were dominant in both retail and municipal sectors), or about new associations or training methods could be shared across sectors.

Nevertheless, there were difficulties associated with such an extensive program, especially with the smaller discrete projects and those that had shorter life spans, so that follow-up was limited and some opportunities could not be fully exploited.

Some projects suffered from starts and stops due to changing USAID priorities, or from lack of continuity due to changing personnel. Some of the changes were, of course, inevitable considering the length of the program. In turn, the length of the program was related to the time it simply takes for changes to occur. Many of the legislative and policy changes that have been achieved in the last three years, for example, would have been unthinkable earlier in the transition – although indeed they built upon work undertaken earlier. The achievements in the condominium sector, for example, built on the passage of important new legislation that was impossible to contemplate early in the transition. Similarly, the good relationships established between developers and bankers in the last year required a much broader interest among diverse lenders in the construction industry than was present before 1997. On the other hand, even now at the end of the program, some issues have not yet reached maturity for assistance to reach maximum effectiveness. One example is the private rental sector, whose importance is still only recognized among very limited circles at present.

An important advantage stemming from the program's longevity has been the benefit of good relationships with key counterparts. Both local program staff and those expatriate advisors that have been involved since early in the program have been able to establish good contacts with key players in the different fields that have lasted for many years, and have enabled new efforts to build on common understanding. This has led directly to many of the most important program accomplishments in sectors such as housing policy, condominiums, and municipal financial modernization. For example, in the housing policy arena over a number of years many basic principles made their way into government thinking and became essential to good policy.

While in some cases non-intensive assistance – especially with continuity in staff over many years – did bear fruit, the program found its greatest successes and strongest impacts in the projects that were organized to bring the most depth. For example, the municipal budgeting seminars were carried out over a three year period, enabling several cities whose representatives attended throughout to make fundamental changes in their

ways of operation, and more importantly, in their ways of thinking. Further, because of the sustained effort, legacy and dissemination devices had time to become more fully developed, raising the likelihood that the program's impact will continue for many years to come.

In sum, a fine line must be tread between designing a program so narrow that it cannot take account of the inter-woven nature of societal reform needs, and one that attempts to do everything for everyone, leading most likely to some efforts that are less successful. Each newly proposed piece of the puzzle must be carefully analyzed to make sure that resources remain available to bring about the best possible result or at least to contribute significantly to the overall effect, and that synergy with other projects will be promoted, creating a whole greater than the disparate parts.

Development of Local Capacity

The structure of UI's program was also unusual among the implementing partners because of its heavy reliance on an independent local policy organization as a subcontractor. Besides facilitating certain operational issues and improving the quality and effectiveness of the program, the intent behind this relationship was clear. The development of local capacity is a key means of ensuring sustainability of USAID's efforts. It would have been, of course, possible to rely on a variety of local consultants, or to hire local staff directly. However, it was believed that by focusing all the local work assignments in a single entity, a stronger, more viable institution would survive to carry on a range of important policy work after USAID closed out its work in Hungary.

While the integration of local experts clearly achieved both intended objectives – a high quality and effective program and a solid legacy in the form of local expertise – there have been difficulties associated with this aspect of the program. The impediments that plague small start-up companies everywhere in the world are much more intense in a country where private enterprise itself is new. Management and marketing skills, financial record-keeping, and general administrative practice all have to be built up. Responsiveness to client requirements is often weak, and standards for work quality need to be established and strictly maintained – including promptness and format as well as content. One basic factor that explains some of these shortcomings is the lack of previous exposure to the rigors of the market. Involvement with donor-funded activities can exacerbate this problem by providing a steady source of income without sufficient conditionality. This becomes difficult to counter when in fact there are not many competing sources of expertise.

Of course these are the reasons why integrating local partners has extra benefits to society, but they also add extra burdens to project efforts, a consideration that needs to be observed by both the contractor and the donor. The contractor also needs to find ways to address these problems. In addition to planning for intense mentoring and training (especially in the initial stages), for example, there need to be some credible



consequences for performance failures – such as withholding payment until an adequate product is actually delivered, or in extremity, failing to renew or terminating the contract due to breach.

It is especially important to plan for the future, to ensure the company's viability in the absence of the guaranteed income coming from USAID. Metropolitan Research Institute will face some serious challenges post-USAID and has not fully prepared for this new phase. Survival of the institution is likely but by no means assured, as efforts to retool its services and to market itself to new clientele have been sporadic, although there are certainly many good opportunities, related to both work under USAID and their other experience. This example suggests that as a relationship with an indigenous institution is being initiated it is important to assess the general business skills and orientation of the principals involved. In the context of a developing society, it is not unlikely that deficits will be found, so specialized training, similar to that being delivered by other USAID contractors to SMEs in the region, might be appropriate. In addition, if the USAID mission chooses to use a consultant model as a major part of its institutionalization strategy, indigenous partners of implementing partners should be required to benefit from the training and other assistance to build healthy consulting practices.

Nevertheless, it is clear overall that the contributions of Hungarian experts have been a key factor in the success of the program. In all sectors, their expertise, their specific local knowledge, and the continuity they provide to each project have been invaluable. Among the important examples is the participation in the housing policy committee of a key Hungarian USAID advisor over a period of three years, which led to tremendous advances in policy analysis that are likely to continue. In many projects, the Hungarian team member was able to establish and maintain solid contacts with all counterparts over several years while crucial changes were made in various institutions, keeping track as well of policy developments that might have important effects on the program. These include, for example, the condominium renovation project and the work on foreclosure regulations. In the municipal budgeting training program, the participation of Hungarian trainers from the very beginning lent the curriculum special credibility; moreover, over the length of the program as the trainers became able to take over more and more of the actual presentations and training components, the program itself became more genuinely an indigenous product. In every project, the full integration of Hungarian staff meant that the new ideas and techniques being transferred immediately became less foreign as the local participants identified and helped weed out the components that would not work in Hungary. In fact the success of each project is the heterogeneous nature of each new idea or product: a true blend of the new outside contribution and local pragmatic requirements. In that way, Hungarian "program budgeting" is a purely local phenomenon which evolved from the work of Hungarian experts and practitioners to refashion American ideas and experience.

Partners and People

A lesson often learned, yet seemingly often neglected, is that the success of any project is the sum of the people involved – and not just contractor and donor staff. Technical assistance is completely dependent on host-country partnership and assistance to bring about any change, so much attention must be focused at the onset, and as projects continue, on creating and nurturing relationships.

For some projects, finding the correct institutional partner is vital. It is no use to try to create change through an instrument that simply cannot have an impact on the target. For example, years of technical assistance to Takarékbank did not create a proportionate return. In large part, this was because the Bank, despite its assurances it could bring about change within the cooperative system, had no control over how the cooperatives carried out their businesses – in addition to its own institutional failings. Contractors and donors need to recognize how crucial it is to have the right partner, and therefore be willing to discontinue assistance to the wrong partner after setting corrective measures that are not met.

Having found an institution to help implement the change, it is of course vital to gain the cooperation of the leadership, even if they are not direct participants in the project, as was illustrated in the context of the budget training seminars. The cities that succeeded in bringing about change were those in which the mayors or at least the chief financial officers took a strong interest. Without that support, the most intensive effort won't bring about changes. In the most important projects – for instance, when the partner must be an innovator – the contractor needs to give special attention to winning over the leadership from the outset, and must be willing to change partners if that is not possible. That is not an easy decision, especially if that implies terminating the whole project, and because in many cases persistence can eventually lead to success despite inauspicious beginnings. However, donors stand to lose considerable amounts in terms of money, time, and credibility if they persist too long in unwinnable battles, so the exit option must be given serious consideration.

While it is essential to have the endorsement of leadership, the allegiance of operational staff is also crucial, as they are the people who typically do the actual work, and who most often have to really change in their attitudes and actions. This is true among local government staff – for instance in developing a property tax the tax staff need to feel that the new tax will be possible to collect and will be generally affordable; the finance director will need to put in very long hours and invest tremendous political capital in getting the rest of the city staff to adapt to a new budgeting process ; the front line municipal service manager will need to feel that measuring performance will contribute to making his or her service more effective. It is just as true in a bank when headquarters staff will need to prepare new procedures when a loan instrument has been changed, or run a training program with a high level of motivation and attention to detail. While this can be encouraged by the instructions of a superior, it can usually only be carried out properly



with personal motivation as well. For that reason it is important to work to gain the confidence and support of the staff level as well as the leadership.

UI's experience has shown that efforts to gain support at both levels should be parallel and should both begin at the start of the project. Because the interests of leadership and staff are often different, it may be best to arrange separate meetings with different agendas for the two groups (although it might make sense to include key staff at meetings with leadership to have a clear delivery of the intent from the top). Even small details such as sending copies of letters and materials to all players or keeping in touch through occasional phone calls can help establish and maintain confidence. Obviously local staff on the USAID team are key in this regard.

Often, another concern is making the best use of those who volunteer their efforts. (It should be noted that virtually every counterpart's cooperation is in addition to his or her ordinary responsibilities and thus they should be thought of as essentially volunteers.) As is illustrated most clearly in the cases of both associations' leaderships, change is often driven by one or two people who for whatever reason are willing to give of their time and energy. Yet almost invariably, and perhaps inevitably, the most dynamic participants are entrepreneurial, busy people, who are apt to give the project attention in fits and starts. Since realistically little can be done to increase the supply of time invested by these volunteers, attention must be given to making the best possible use of it. A strong push at the beginning of the project is vital, so that the highest levels of energy can be harnessed, rather than being allowed to dissipate during lengthy implementation delays. Thus, contractors should ensure that a high level of staff or consultant attention be made available at that time, rather than relying on consultants who make infrequent visits.

A Multilateral Approach

One of the most difficult aspects of UI program has been the effort to influence major policy and attitudinal changes, which are often firmly rooted in historical causes, and institutionalized through laws and procedures and habits at many levels and in many forms. This leads to a kind of prisoner's dilemma, in which each institution or actor is reluctant to act unilaterally as they feel it is either hopeless or will leave them more vulnerable. In these cases, UI has found it to be beneficial to use several avenues of approach simultaneously.

One example of this approach has been in the condominium sector, in which work was carried out through the central government (relating to both the passage of a landmark new condominium law and maintaining contact with subsidy policy), through banks (working to change bank policy regarding loans for condominium renovation), through local governments (to help establish a broader-based assistance programs providing both technical and financial support to condominiums), through property managers (to provide training and better information), and directly through the condominium associations themselves. The team's contact with all important players lent

credibility to the project, as individual actors were more likely to believe that others were changing too.

Another example was the local government finance program, in which work was carried out intensively with individual cities, more broadly with larger groups of cities, with a national association of finance officers, with banks, with international donors, and with the central government on a variety of interrelated topics – local revenue generation, budget reform, infrastructure finance, performance measurement. Each of those activities had resonance with the others so that the overall effectiveness of the reform efforts was greatly enhanced.

There is yet another dimension that can be considered when designing a multilateral approach: while most project work is necessarily carried out with institutions (local governments, firms, NGOs, government agencies), it is important not to neglect the ultimate “client” of all USAID work – the general public. And often the direct inclusion of Hungarian citizens as not just abstract recipients but a genuine audience – and indeed participants – can make all the difference in ensuring a successful outcome. One example might be condominium residents; in addition to taking steps to improve legislation affecting condominiums and to make it easier for condominiums to undertake renovation, it was important to make sure owners know about the new conditions and are able to benefit from them – as was done through training programs, special interest group discussions during legislative reform, and extensive media outreach.

While UI projects have always been mindful of the citizen as client, including them directly in project activities has been greatly spurred on in the program's final year by the parallel efforts of the Public Education Program. In addition to a general move to employ press outreach to disseminate particular important messages more broadly to the general public, two additional important initiatives that emerged from that program were the housing loan brochure and the citizen information pamphlet. The housing loan brochure grew from the awareness that while various legislative and institutional developments achieved at least partly through the housing finance program have improved the viability of the housing finance market, a key remaining impediment is a deep-seated reluctance to borrow. The brochure, which is now being distributed by all the major lenders in the housing finance sector, addresses that reluctance head-on, by providing clear explanations of all available lending instruments, identifying current sources of finance, and showing how to calculate the loan amount that a particular household will be able to afford.

The citizen information brochure evolved from the municipal financial management reform program, as it became clear that cities are just in the very first stages of developing an open and reciprocal relationship with their citizens. Especially as they face some potentially unpopular measures such as introducing a new tax or cutting schools, city officials realize it is imperative to inform the public as to why those actions are important and useful. While municipal staff are starting to make some effort at outreach, they often



perceive citizens to be passive and uninterested. The citizen information pamphlet, developed as a model, should help cities begin the process of providing solid information to their population, including information about finances and the operations of the city, linking services to revenues, giving names of the key people to contact on a wide range of issues and important contact information.

Shadows of the Past

An important aspect of the entire Urban Institute program (and indeed of almost every activity, professional or personal, in Hungary) has been a number of fundamental attitudinal differences encountered in every sector of society. Many observers talk about “cultural” differences, but in fact many of these attitudes are traceable to the direct influence of Hungary’s recent history. Not all of them, of course, are impediments, but some of the most notable have left a profound impact on the progress of each project. Donors must recognize these different ways of seeing the world – perhaps common across the transition countries – and work sensitively and patiently within those strictures in order to foster the deepest levels of democratic change.

One key issue, for example, that has had a deep effect on many donor activities, is the attitude toward transparency. Many Urban Institute projects included a strong component encouraging transparency, for example, the projects aimed at establishing representative associations, the development of legislation, and work with local governments. While not overtly opposed to transparency, often project counterparts simply didn’t understand the importance of this issue; how essential a role accountability would play, for example, in the finances of a local government or an association. As discussed above, associations often wanted to restrict membership rather than expand it, in order to protect information, due to an underlying distrust of other professionals in the same field. Whereas logic might suggest that bringing in new members would bring not only new dues payers but also hands to help with all the association-related work, the core group often seems to assume that all newcomers would be free-riders, contrary to the evidence. Part of this clannishness seems to be a distrust of the establishment as a whole, for example not having a sense that there is a stable regulatory framework that can ensure ethical behavior.

Similarly, local governments often seem to find the idea of making contracts public to be surprising. They are more likely to respect the requests of contractors to keep terms private rather than seeing the benefits openness can bring: lower prices, better performance, greater public trust. In some cases this reluctance may be related to personal gain, but most often it seems to be simply a habit of confidentiality, and insufficient experience with accountability.

Another important difference is the attitude toward the law, which is often viewed as something unalterable and not to be discussed, paradoxical in a society that has created uncountable new laws in the last nine years. A corollary is the assumption that if

something is not explicitly allowed in the law then it cannot be done, whereas an American would make the opposite assumption and be likely to act upon it. Obviously this attitude makes it especially hard to be an innovator, in areas such as local government autonomy or acting on foreclosure regulations. This recalcitrance sometimes seems related to the famous Hungarian pessimism, a kind of fatalism that the system is impossible to change, but when change is essential (as it certainly has been in almost every facet of life throughout the transition), this attitude cannot be accepted.

A notable example of this attitude is the relationship of local governments to the central government. In many sectors, local governments feel the weight of central regulations very strongly, and believe laws should be changed. Nevertheless, these objections are rarely voiced directly or in an organized way, and are much more likely to take the form of grumbling than explicit advocacy. One example of this is the role of local government associations, which still rarely lobby on specific measures. Another was revealed through Urban Institute work with municipalities on performance measurement. While municipal staff often feel that central regulations are not necessarily the best approach to the problems and needs in certain key sectors (e.g., social services and education) – and certainly that the money is never enough and the reporting requirements are onerous – they largely believe that their job is primarily just to carry out those regulations, rather than to solve the problems faced by their communities. Further, the idea of protesting the over-regulation by directly addressing the central government is unthinkable. Only by establishing careful and clear linkages between the need and the community, the ways in which services fall short of addressing those needs, and the disparities between central regulations and those needs was it possible for Urban Institute efforts to result in some clearly voiced conclusion that perhaps central regulations should be amended.

Working with Policy Makers

Efforts show that in the short run, technical assistance's impact on policy making is likely to be limited. Important policy decisions tend to be made by extremely senior officials based on large scale political and media dynamics and perceptions, and are little influenced by policy analysis, whether produced internally or by outside experts. The influence of such analyses, and it is not minor at all, is usually in the long run, in framing the questions and the range of "acceptable" answers. For example, as it is shown again and again that some attractive policy approach is inefficient and unfair, it gets ruled out of discussion. This is illustrated by the perception in Hungary today that the housing construction allowance is discredited, as are child-based subsidies in general. Thus, work on many issues will only flower over the next 5 years, now that "everyone" in the lower level policy community has heard the message.

Influencing concrete legislative proposals, as opposed to more broad-based policy considerations, requires contacts with officials at the policy implementation level, who will carry out the drafting of the legislation. It is necessary to establish credibility



with these officials by demonstrating knowledge of underlying issues, such as how condominiums operate in other countries and what changes were needed to help condominiums in privatized buildings succeed in Hungary. Further, developing popular support for a change in legislation is also vital. In the case of the condominium law reform effort, this was done through the long-term technical assistance programs for establishment and renovation of condominiums described above, through a series of special working group meetings during the revision of the condominium legislation, and by explaining the contents of the new draft Condominium Law at a conference held to discuss its provisions, how they would work in practice, and why they are important.

In addition, the contractor should make sure persons who are affected by the new law are aware of and understand its contents. Consultants working on the condominium reform effort, for instance, were concerned that many people continued to be confused about the new law and how it would be implemented. Publications prepared for mass distribution under the renovation project covered the salient features of the new law, and condominium training materials and curriculum were modified to reflect those changes.

In general, it was made amply clear that technical assistance must work around the political schedule, rather than trying to bend the schedule to the funder's will. An important part of project planning must be to note the foreseeable political changes and stumbling blocks ahead.

Better Training

Much of UI program focused on training, so many lessons were learned about increasing its effectiveness.

First, experience made clear that the most effective marketing is comes from word-of-mouth support by existing participants. In the case of the budget training, for instance, those who found the new techniques useful told colleagues in neighboring communities, encouraging them to participate. was The budget documents from the pioneering cities were a particularly valuable means of convincing cities to join the program; even after the first year the documents were persuasive enough to encourage other local governments to try for themselves. Some trainees were recruited by direct mail. Least effective was advertising in the media, even specialized media targeted at desired participants.

It was also found that the deep level of attitudinal change needed in the environment of a transition country is most likely to be achieved only through a series of regular meetings and seminars, rather than through a one-off contact. Thus, the budget training program was structured to have participants meet six times a year, each time for a one or two day seminar. In another valuable aspect of the program, the topics discussed at each occasion matched the real budget cycle. It is believed that this

technique of repeated contacts with participants does increase the impact and depth of the changes sought to be initiated. When appropriate, scheduling seminars around participants' actual work schedules enables the theoretical to be quickly converted into the practical. An additional reason to emphasize longer-term programs is that, in an intensive, continuing program participants are able to build professional relationships because they encounter each other frequently; in turn, those relationships can be nurtured either through informal contacts or through organization of an association.

Also illustrated over and over was the necessity of making training materials relevant to the Hungarian situation. First, in order to have credibility with training participants, examples must be drawn from the Hungarian context. In the first year of the budget training series, it became clear that presentations or case studies based on US practice were often met with resistance and the audience distanced themselves from what they had heard and did not believe in the potential of adapting it in Hungary. The most popular part of the seminars was always the presentation of how a certain technique could be put into use at a specific municipality. Participants could feel that those things could be implemented, and it was worth implementing them. By the third year theory was illustrated with Hungarian examples. This greatly helped to fill concepts, too abstract and sometimes apparently impracticable, with content and to show how to put them into practice. This "Hungarianization" of the materials, although a lengthy process, was an essential part of the success of the program. As noted by participants in the developer training courses, it is also important for Western trainers to discard their assumptions about the "less developed" East and gauge potential trainees' existing knowledge, to avoid the frequent pitfall of presenting materials at too low (or too high) a level for the participants.

In order for training programs to have sustainability over the long run, it is essential to plan from the beginning to hand off responsibility to Hungarian institutions or trainers. Again, the issue can be illustrated by a discussion of the budget training project. The program was designed by Hungarian and American experts, and in the first year the various fields were divided between them. In the second and particularly in the third year, several presentations were given jointly and some of the topics were taken over entirely by the Hungarian staff. The key role of the American partners was to present the new spirit of reform, to introduce new concepts and to provide already developed materials such as case studies, exercises and work sheets (primarily in the first two years). As the program became Hungarianized and adapted to the local environment (with local trainers playing an important role), the proportion of American contribution decreased. This experience exemplifies how a long term training program can take maximum advantage of American experience while deepening the knowledge of Hungarian trainers and increasing the relevance of the materials to the Hungarian experience.



Involving active municipal staff as trainers and facilitators proved to be an excellent idea in the case of the budget training seminars. Through training-the-trainer programs and mentoring, they gained the necessary tools to enable them to share their experience and knowledge not only during the program itself but also over the long term. Simultaneously, they could not only help adapt the materials, but also popularize concepts and techniques by testifying to their usefulness and relevance. This experience indicates that serious consideration should be given to utilizing more active program participants as trainers in subsequent years of a multi-year program.

This is not to suggest that training programs should not take advantage of techniques not commonly used in the region. UI program made very successful use of modern training mechanisms such as group exercises after learning to work with a common trait among the participants: their limited ability (or willingness) to think abstractly. In the case of the budget training seminars, very few were able to disregard their own communities and think about the exercise as a model (which is a simplification of a problem). That was the point at which facilitators became very important. This was a very new kind of challenge for them, and they often found it more difficult than giving presentations. However, over time they acquired the skills to run work groups efficiently. Even by the end of the first year, participants said the small group discussions and exercises were among the most useful parts of the training program. This experience suggests that although small group exercises can be valuable, the facilitators must keep a tight control over the process. Thus, inexperienced facilitators may find it useful to receive training on small group techniques at the onset of a training cycle, and perhaps provide refreshers throughout the life of the project. It may also be helpful to provide participants with a general orientation on effective discussion participation early in the process.

An interesting opportunity to compare trainings offered in the country-side as opposed to in the capital city was provided by the developer training series. Certainly there are benefits to presenting training in the country-side, particularly because so many training opportunities are already available in the capital. The participants are likely to be more engaged in smaller cities and the synergy among participants stronger. Moreover, it was found that attrition is less in smaller cities, perhaps because the participants had fewer time constraints. On the other hand, it was difficult to find sufficient participants in the country-side. Yet in smaller cities attendees were usually those important persons who could actually make a difference in the development process, while in Budapest, a larger number attended, but the developers were smaller and less experienced. Because persuading participants from the countryside to join the training is indeed difficult; it may be that affiliating with a local partner such as a chamber would add credibility to the effort.

It is important to note that in a more matured transition country, training provided in technical concepts is perhaps not so important as the fact that the sessions can bring the parties together in an atmosphere conducive to discussion and a better understanding each other's way of thinking. This process was illustrated by the developer training project,

which was highly successful in improving bankers' view of the risks and rewards of making finance available to developers. This was in large part due to the enthusiastic participation of high level bank officials, highlighting yet again that it is essential to seize the interest of those actually able to implement change.

ANNEX 1

LIST OF PROJECTS IN HUNGARY UNDER PREVIOUS CONTRACTS

This annex identifies the contract and task order ("Request for Service") under which the work for each project under previous contracts was done. The RFS number follows each project title, identified by contract – Housing Finance (HF), Local Government (LG), Private Sector Development (PSD), Worldwide (WW), or Eastern European Regional Housing Project (EE).

I. Strengthening Small and Medium Enterprises

- Budapest Rental Sector Panel Survey (WW-138; Grant to World Bank, LG-89)
- Study of Residential Development in Hungary (PSD-44, 65)
- Survey of Cooperative Housing in Hungary (CHF)
- Szolnok: Demonstration Program on the Private Development of Housing (LG-87; PSD-44)
- Rehabilitation in Budapest Inner City Districts (LG-36)
- District VII: Financing Renovation of Newly-Privatized Housing (HF-1, HF-11)
- Construction Bonding and Warranty (PSD-23)
- Construction Sector Study (PADCO)
- Introduction of a Multiple Listing Service (WW-29, 40, 43, 140)
- Professional Association of Developers (EE-512)
- Policy and Legal Support (WW-40, WW-139; HF-1, LG-15, LG-93)

II. Improving Municipal Service Delivery

Local Housing Policy

- Advisory Support on Municipal Housing Policy (LG 9, 93)
- Budapest: Urban Development and Rehabilitation (HF-1, LG-8, LG-17)
- Kecskemét: Local Government Role in Development (WW-72; ICMA)
- Local Housing Strategy Training (WW-35)
- Privatization Strategies for Budapest Inner City Districts (WW-102)
- Szolnok: Developing a Local Housing Strategy and Rental Policy (HF-1, 10; LG-19, LG-65)
- Housing Allowance Seminar (LG-35)
- Szolnok: Developing the Asset Management Function (HF-10, LG-19, 65)
- District II: Introducing Competition into Housing Management (WW 52)
- Asset Management Training Course (LG-67)

Municipal Finance, Infrastructure Finance, and Service Delivery

- Municipal Infrastructure Financing (LG-120)
- Szeged: Advice on Water/Sewage Joint Venture (LG-45, 105)
- Assessing Needs for Local Technical Assistance in Infrastructure Finance (LG-34)
- District XVII and XVIII: Infrastructure Finance (LG-69)
- Background Paper on Municipal Lending (LG-69)
- Municipal Credit Conference (LG-83)

III. Housing Finance System Reform

- Technical Assistance in Housing Finance (HF-20)
- The Housing Guaranty Loan Program (HF-34, HF-53, HF-56)
- Central-Eastern European Regional Housing Indicators (HF-57, 60)
- Joint World Bank/AID Budapest Project (WW-67)
- Technical Assistance to the National Savings Bank (HF-41, HF-55)
- Technical Assistance to Budapest Bank (HF-44)
- Private Mortgage Bank Feasibility Assessment (WW-121)
- Mortgage Finance (WW-27)
- Budapest Conference of the European Network for Housing Research (HF-39; EERPF)

ANNEX 2 MAJOR REPORTS

I. SMALL AND MEDIUM ENTERPRISES IN THE REAL ESTATE SECTOR

Revision of Condominium Law

*⁷Draft Bill on Condominia (No. T/4514). June 1997.

Act CLVII./1997 on Condominia. Approved by Parliament December 15 1997.

Carol S. Rabenhorst. "Review of Law No. CLVII/1997 - The Condominium Law of Hungary." March 1998.

Condominium Renovation Program

Carol Rabenhorst, *et al.* "Rehabilitation and Major Repair Projects for Condominiums in Hungary: Preliminary Findings and Recommendations." March 1997.

Christopher Banks and Martha Davis. "Findings and Recommendations." October 1997.

Martha Davis. "Pilot Buildings: Current Progress Report." January 1998.

Marvin J. Price. "Pilot Buildings: Preparation for General Assembly Meetings and Project Approval." March 1998.

Éva Gerőházi: "Opportunities and Impediments for Renovation in Privatized Multi-family Housing in Hungary." August 1998.

* Martha Davis, Carol Rabenhorst, Éva Gerőházi, Iván Tosics. "Finance for Condominium Renovation in Hungary." November 1998.

* Éva Gerőházi, with Carol Rabenhorst, Martha Davis, Marvin Price. *My Home is My Castle, Even if it's Not in the Best Condition.... The Financial and Organization Issues of Renovating Property. Supplementary Training Material for Property Managers and Common Representatives.* April 1999.

* Éva Gerőházi and Martha Davis. *Lending for Condominium Renovation: A New Market Emerging.* (Brochure for Bankers.) June 1999.

* Carol Rabenhorst, Martha Davis, and Éva Gerőházi. *Municipal Opportunities for Supporting Condominium Renovation.* (Brochure for Local Governments.) June 1999.

⁷ Starred reports are also available in Hungarian.

Carol Rabenhorst. "Project Summary: Rehabilitation and Major Repairs for Condominiums in Hungary. RFS 515" June 1999.

Condominium Association Training Course

* Carol S. Rabenhorst. "Condominium Operations and Management in Budapest: Status and Implications for the Future of the Privatized Housing Market." September 1992.

Carol S. Rabenhorst. *Condominium Operations and Management Training Manual*. February 1993.

* Carol S. Rabenhorst, Richard T. Owens, Béla Csabai, Ildikó Kakuk, Agnes Karlovich, József Pál, and Edit Szántó. *Condominium Operations and Management Training Manual*. January 1993.

Abigail Calkins. "Hungary Trip Reports." March and July 1994.

* Matthew Lovick, *et al.* *Condominium Renovation Training Manual*. June 1996.

* *Condominium Association Training Manual*. Cooperative Housing Foundation, UI and Metropolitan Research Institute. December 1996.

* *Manual for Condominium Operation and Management*. Urban Institute, Metropolitan Research Institute, CHF. 1998.

Strengthening Property Managers: Developing an Association

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